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Report on the Implementation of Fraud Prevention Plans in the Public Service

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FOREWORD

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Executive Summary

This report presents the findings of a research study implemented by the Public Service Commission (PSC) to assess the implementation of Fraud Prevention Plans (FPP) in the South African Public Service. Government departments are mandated by Treasury Regulations of the Public Finance Management Act (1999) to develop and implement Fraud Prevention Plans. These Plans moreover constitute key instruments in the broader expectation that departments develop strategies to identify, manage, and minimise risks in their day to day business that could impact adversely on their operations.

The study represents the most in-depth assessment of Fraud Prevention Plan implementation to date, since Treasury Regulations mandated that these Plans be put in place in 2001. Lack of baseline information on FPP implementation meant that this study had to negotiate a balance between in-depth enquiry and the participation of departments.

This study employed a survey approach, utilising a semi-structured questionnaire, to enquire into the implementation of FPPs. A sample of sixty-nine (69) departments participated in this study. This comprised 15 national departments and 54 provincial departments from all nine provinces. A broad cross-section of departmental sectors was represented.

The findings of this study are presented in three broad areas: departmental fraud and risk preparedness; departmental fraud prevention structures; and procedures, and departmental fraud profile and awareness-building activities.

In relation to departmental fraud and risk preparedness, the findings showed that a high percentage of national and provincial departments that participated in this survey reported having FPPs in place. The contents of these Plans, as well as departmental risk management strategies, were also of a generally high standard, covering a range of key topics in fraud and risk management. The findings also showed that departments could be doing more to improve the regularity and effectiveness of fraud prevention plan reviews, which given that departments appeared to be conducting risk assessments more frequently, could ensure that their FPPs maximise on potential changes in a department's fraud risk profile.

The findings on departmental fraud prevention structures and procedures observed that a majority of departments in the sample reported the establishment of specialist fraud prevention and risk management structures, in addition to internal control mechanisms such as internal audit and audit committees. The formal allocation of management responsibilities for fraud prevention was also generally favourable amongst departments.

The findings also showed that management accountability and implementation practice for fraud prevention could be improved by successfully de-concentrating and more clearly delineating roles and task designations for fraud prevention amongst departmental staff, especially managers. This is of heightened importance given the capacity problems being reported by departments in fully constituting specialist fraud prevention and risk management functions, as well as in their internal audit practice[1]. Again, departmental procedures related to fraud prevention, such as reporting, protection, and conflict of interest, demonstrated a need to consolidate current activities into more robust conflict of interest and protection (i.e. whistle-blowing) regimes, or policies, so as to maximise the impact on fraud prevention.

The findings on departmental fraud profiles and the activities being carried out to promote awareness and improve understanding of the issue of fraud and fraud prevention, has shown that departments appear to be sustaining fraud in multiple activity areas. This simultaneously reveals multiple areas of risk exposure, which heightens the significance of findings elsewhere in this study on preparedness, structures and procedures, exposing areas where fraud prevention and risk management could be improved. Research elsewhere by the PSC is showing that cases of fraud and theft, as a percentage of reported cases of financial misconduct, remain relatively high.

Finally, it was also found and acknowledged by departments themselves that they could be doing a great deal more, in terms of variety, to promote and communicate awareness, and improve understanding of the issue of fraud and fraud prevention. This was particularly evident amongst employees below senior and middle-management positions given the fact findings in some studies conducted by the Public Service Commission showed that these employees were less involved in fraud prevention planning and risk assessment. However, the findings further showed that high proportion of financial misconduct cases are among the employees who fall within this group.

In view of the findings contained in this study, it is recommended that the following measures be taken to improve the effectiveness of fraud prevention planning in the public service:

- Improve the review of Fraud Prevention Plans (i.e. their regularity, assessment and measurement) to maximise the effect of more frequent risk assessment exercises being carried out in departments:
  - As part of this process, departments should put more effort into involving employees below senior and middle management levels
- Expedite measures to operationalise and capaciate specialist fraud prevention and risk management functions:
  - Responsibility for fraud prevention and risk management should be more clearly allocated and diffused more widely amongst line function managers

[1] Continuing capacity challenges in internal audit recalls similar concerns expressed by Chang and Van der Schyf in their 1998 analysis of public service internal auditing, where the researchers acknowledged that the role of the internal auditor was broadening from traditional inspection to more active involvement in improving operational and managerial performance. See Chang, S.Y., Van der Schyf, D. 1998. Critical issues of internal audit development in the South African public sector. *Accountancy and Finance Update* Volume 3, No. 5: 2-6. Page 2.

- Departments should extend and strengthen internal control procedures, such as conflict of interest regimes, around sustained high fraud risk areas and categories of employees, i.e. production level-procurement

- Departments should investigate the most effective means of building awareness and educating employees about fraud and fraud prevention.

Chapter 1: Introduction

1.1 Background to the Study

Fraud prevention as discussed in both Treasury Regulations to the Public Finance Management Act (PFMA)[2] and chapter ten of the South African Constitution[3] is a critical factor in the long-term challenge of promoting a high standard of professional ethics in the public service. Preventing fraud in the Public Service requires public service bodies to strive to promote ethical conduct in the course of their operations by instituting steps to systematically reduce the prevalence and impact of fraud when it occurs.

Since the coming into effect of South Africa's Constitution in 1996, considerable energy has been directed at concretizing the principle of professional ethics in public administration, and particularly where this concerns fraud prevention. It has generally been observed that fraud is rooted in the behaviour and related actions of public servants which produce negative material (typically financial) consequences for public service bodies. Fraud is therefore considered an activity that should be prevented, as a means of 'maintaining' a high standard of professional ethics. The consequences of fraud in the organizational environment of the public service also obliges government departments to educate employees about the consequences of fraud, which speaks to the goal of 'promoting' a high standard of professional ethics.

This study on the implementation of Fraud Prevention Plans in the public service stems from the mandate issued to the PSC by Chapter Ten of the South African Constitution (section 196), which, *inter alia,* is required to promote the principles as set out in section 195, including investigating, monitoring and evaluating the organization, administration and personnel practices of the public service. The PSC is the custodian of the nine principles of public administration set out in section 195, and in terms of its mandate, required to monitor and evaluate the status of each principle. It is in the context of this mandated responsibility that the PSC sought to investigate the issue of fraud in the public service, and specifically the responsibility that government departments shoulder to prevent fraud.

1.2 Fraud prevention in the Public Service

Fraud prevention planning is a legislative requirement for public service bodies in South Africa. It has developed in the context of public bodies needing to establish strategies to identify and reduce risks (risk management) in their business environments that could adversely impact on their operations, including the risks and material impact of fraud in particular. The issue of fraud has been more broadly linked to a particular behavioural pattern, as defined by a number of South African public bodies. For example, in its latest report on financial misconduct in the public service, the Public Service Commission defined fraud as "...the unlawful and intentional making of a misrepresentation which causes actual and or potential prejudice to another,..."[4]. The Department of Public Service and Administration has defined fraud as involving "...actions or behaviours by a

[2] Republic of South Africa. National Treasury. Public Finance Management Act 1 of 1999

[3] Republic of South Africa. Constitution. Act 108 of 1996

[4] Republic of South Africa. Public Service Commission. Overview of Financial Misconduct for the 2004/2005 Financial Year. 2006.

public servant, other person or entity that fools others into providing a benefit that would not normally accrue to the public servant, other persons or entity"[5]. The DPSA cited an example of a public servant registering a fictitious employee in order to collect the salary of that individual. South Africa's National Treasury also observed that fraud generally entailed obtaining a benefit "through deceit or other dishonest means", where "Fraud can be defined as any practice that involves deceit or other dishonest means by which a benefit is obtained from the government"[6].

1.3 Fraud Conceptualized

Fraud is a complex concept and has been defined differently by various people. Fraud and corruption are at times used interchangeably. This means that the two terms seem to have the same meaning according to some people. For example, the government of the United Kingdom has referred to "bribery and corruption" in its description of actions linked to fraud[7]. In this regard, the Public Service Anti-Corruption Strategy of South Africa has employed the following definition to refer to fraud "any conduct or behaviour in relation to persons entrusted with responsibilities in public office which violates their duties as public officials and which is aimed at obtaining undue gratification of any kind for themselves or for others[8]." On the other hand, the Australian government has also included corruption or abuse of office in its definition of fraud[9]. It is common fraud the definitions provide that whatever form fraud takes, it is a crime or offence which is conducted for personal gains.

Furthermore, although legislatively fraud has been treated as a financial mismanagement matter, the consequences of fraud has in fact transcended this narrow definition to include "non-monetary benefits" accruing to an individual engaging in fraudulent actions, such as using significant time at work for private purposes and taking un-recorded leave[10]. Broadening the definition of fraud could therefore settle on an emphasis on behaviour or conduct that intentionally misrepresents the actions of an employee of a government department, where engaging in such action derives a monetary or non-monetary benefit for the individual[11].

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5 Department of Public Service and Administration. 2002. Public Service Anti-corruption Strategy. January 2002. Pretoria: DPSA. Page 7.

6 National Treasury. XXXX. Fraud and Risk Prevention: Volume 6. Pretoria: National Treasury. Page 3.

7 HM Treasury. 2003. Managing the Risk of Fraud: A Guide for Managers. London: HM Treasury. Page 1.

8 Department of Public Service and Administration. 2002. Public Service Anti-corruption Strategy. January 2002. Pretoria: DPSA. Page 11.

9 Attorney-General's Department. 2002. Commonwealth Fraud Control Guidelines. Canberra: Commonwealth of Australia. Page 4.

10 See National Treasury. XXXX: Fraud Risk and Prevention: Volume 6. Page 3. In addition to these non-monetary forms of fraud, monetary forms included misappropriation of funds, substituting new goods with old, and using a Department's assets for private profit.

11 This corresponds with perspectives on fraud taken by public service bodies elsewhere in the world. For example, in its fraud control guidelines, the Australian government defined fraud as "dishonestly obtaining a benefit by deception or other means", which could entail deriving "tangible and intangible benefits". The United Kingdom's Treasury also conceded that whilst there was currently "no precise legal definition of fraud", for the purposes of reporting, acts involving deception (which could implicitly derive financial and non-financial benefits) were considered as falling within the spectrum of fraud.

1.4 Purpose and Aims of the Study

1.4.1 Purpose of the study

The research study on the implementation of Fraud Prevention Plans had two purposes: the first was to through gathering new empirical data, establish the current reality of fraud prevention planning; and secondly, to critically analyse the instruments, structures and procedures through which government departments implemented their fraud prevention plans.

1.4.2 Aims of the study

The specific aims of the study were the following:

- Whether public service departments had developed Fraud Prevention Plans (FPP)
- Enquire into how FPPs were implemented in departments
- Evaluate if FPPs were aligned to the management processes within departments
- Establish what structures and procedures were in place to guide the management of fraud in departments
- Assess the perceived impact of FPPs

Since the regulatory provision came into being requiring that government departments prepare Fraud Prevention Plans, in 2001, no single study has attempted to carry out an in-depth analysis of the implementation of Plans as that conducted by this research. This means that this study is a ground-breaking one in the area of fraud prevention.

1.4 Structure of report

This report is structured in the following manner:

Chapter 1 provides an introduction to the study and the context of fraud prevention planning in the South African public service.

Chapter 2 gives an overview of the research methodology, design and data collection methods employed by this study.

Chapter 3 provides a picture of the current state of fraud prevention planning in the public service, including legislative and policy frameworks, and previous research conducted on the subject.

Chapter 4 outlines the findings related to departmental fraud and risk preparedness.

Chapter 5 presents the findings on fraud prevention structures and procedures in departments

Chapter 6 presents findings on the types of fraud being experienced by departments and their activities to promote awareness and provide education on fraud prevention.

Chapter 7 gives a general conclusion to this study.

Chapter 2: Methodology

2.1 Introduction

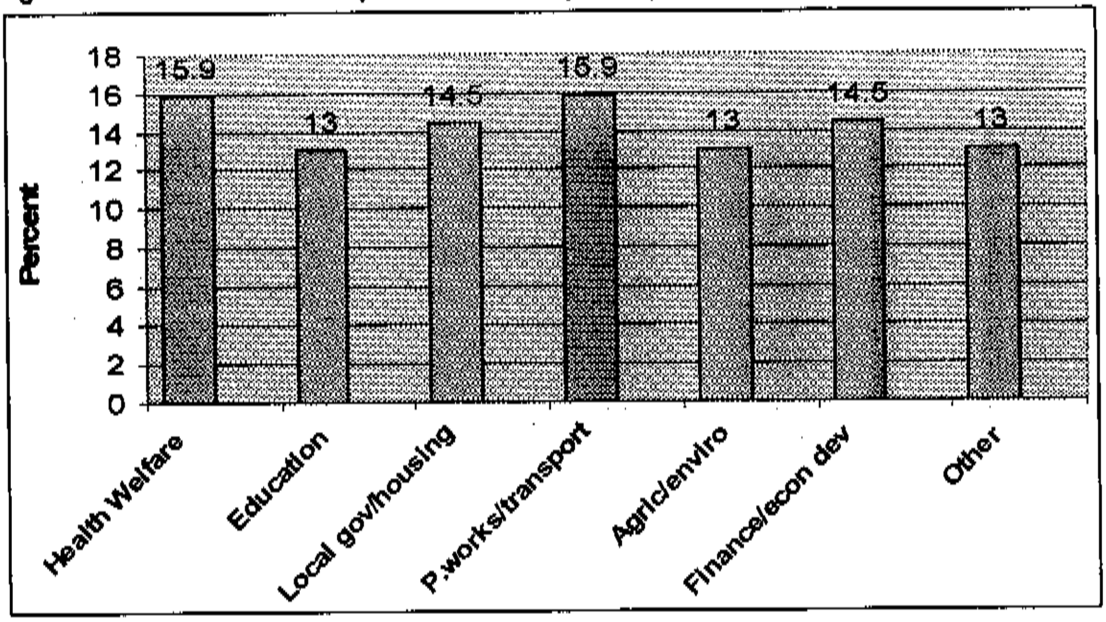
This chapter presents the research methodology employed in this study to assess fraud prevention plans in the public service. The chapter specifically outlines the rationale that informed the overall approach to this study, which includes the sampling of departments, the nature and content of the instruments utilised for collecting data an analysis of the data collected.

2.2 Setting and sample

The sample of the present investigation was drawn from both national and provincial government. The Public Service has 138 departments, 106 at provincial level and 32 at national level. The sample consisted of 66 departments where 50 departments were from all the nine provinces and 16 departments from national departments. Purposive sampling was applied in this study and this is the type of sampling which states that only those departments that would yield the information that would meet the purpose of the study would be sampled.

Figure 1 below illustrates that the final tally of departments which represented a cross-section of sector participation, according to six main categories that were identified for the purpose of this study. The categories are Health and Welfare, Education, Local Government and Housing, Public Works and Transport, Agriculture and Environmental Affairs, and Finance and Economic Development. Those falling under "other category" included departments of justice, crime prevention and security at national level and offices of the Premier at provincial level.

Figure 1: Distribution of Departments Sampled by Sector (N=69)



Tables 1 and **Table 2** below indicate national and provincial departments that participated in the study.

Table 1: National departments that participated in study

Correctional Affairs	Public Service and Administration
Education	Public Works
Justice and Constitutional Development	South African Police Service
Health	Social Development
Housing	Trade and Industry
Minerals and Energy	Transport
Treasury	
Provincial and Local Government	
Public Enterprises	

Table 2: Distribution of departments that participated in study by province

Department	Province
Agriculture	Eastern Cape
Economic Development and Environmental Affairs	Eastern Cape
Public Works	Eastern Cape
Education	Eastern Cape
Local Government and Housing	Eastern Cape
Health	Eastern Cape
Agriculture	Free State
Economic and Environmental Affairs	Free State
Public Works	Free State
Education	Free State
Local Government and Housing	Free State
Health	Free State
Office of the Premier	Free State
Provincial Treasury	Free State
Agriculture	Gauteng
Education	Gauteng
Housing	Gauteng
Health	Gauteng
Public Transport, Roads and Works	Gauteng
Health	KwaZulu-Natal
Public Works	KwaZulu-Natal
Transport	KwaZulu-Natal
Agriculture	Limpopo
Education	Limpopo
Health and Social Development	Limpopo
Economic Development and Environmental Affairs	Limpopo
Local Government and Housing	Limpopo
Public Works	Limpopo
Office of the Premier	Limpopo
Provincial Treasury	Limpopo
Agriculture	Mpumalanga
Economic Development and Environmental Affairs	Mpumalanga
Education	Mpumalanga
Health and Social Development	Mpumalanga
Public Works	Mpumalanga
Local Government and Housing	Mpumalanga
Agriculture	North West
Health	North West
Education	North West
Local Government and Housing	North West

Public Works	North West
Education	Northern Cape
Economic Development and Environmental Affairs	Northern Cape
Health	Northern Cape
Local Government and Housing	Northern Cape
Roads, Transport and Public Works	Northern Cape
Office of the Premier	Northern Cape
Provincial Treasury	Northern Cape
Education	Western Cape
Local Government and Housing	Western Cape
Health	Western Cape
Agriculture	Western Cape
Environmental Affairs	Western Cape
Economic Development and Tourism	Western Cape

Figure 2: Breakdown of sample by budget size (N=66)

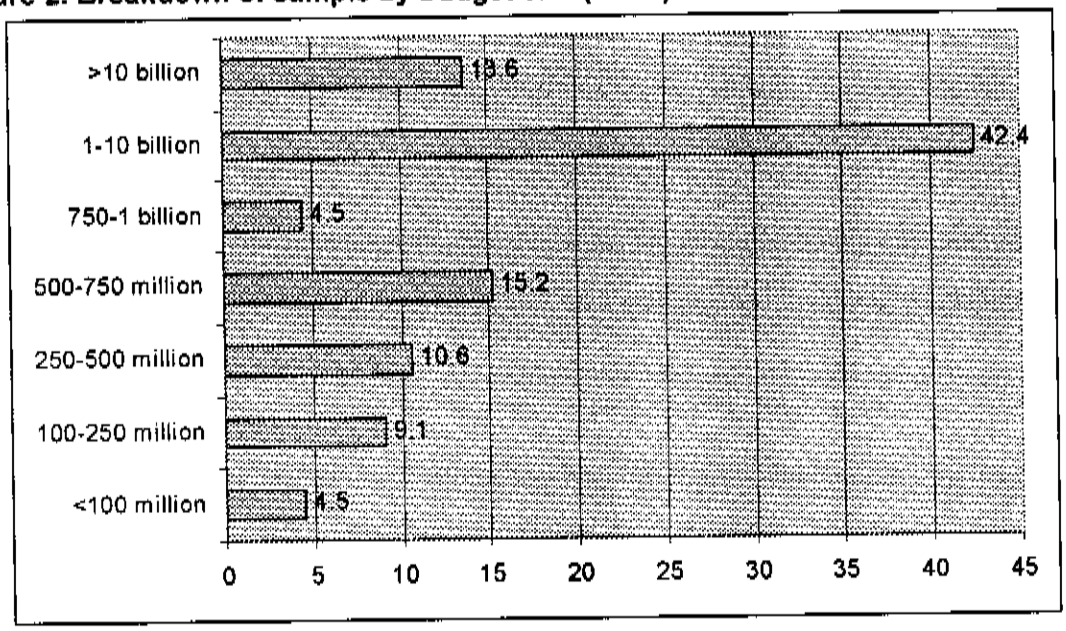
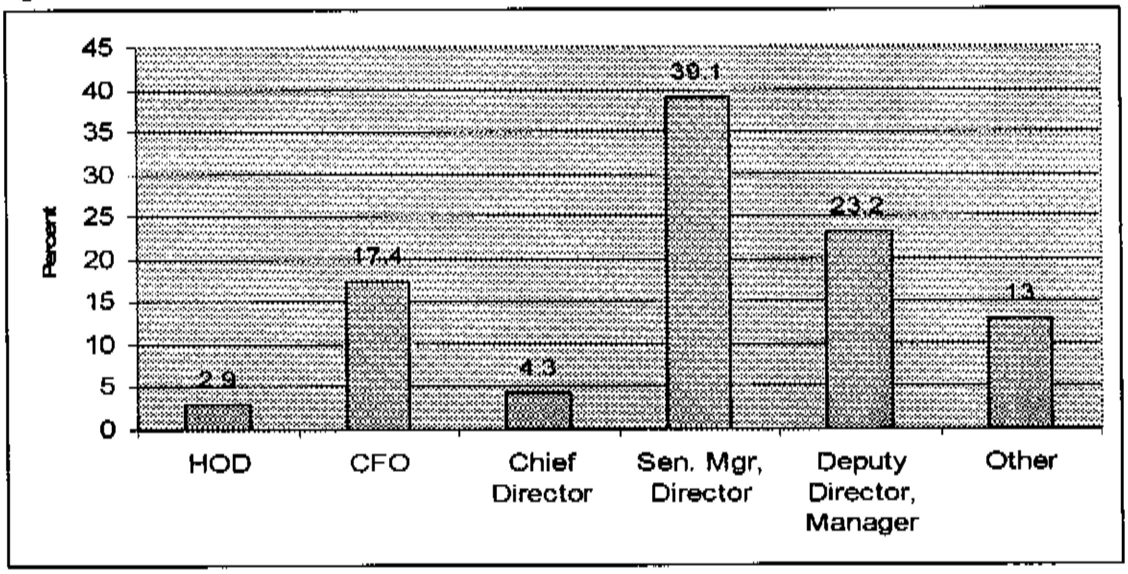


Figure 4 below shows that nearly 18% of key informants that participated in the study were the Chief Financial Officers of the respective departments. The other key informants were senior managers such as chief directors and directors at 43,4%. Managers and deputy directors that participated in the study as key informants were 23%. In a few cases, Heads of department (HoDs) were able to take part as key informants. Respondents clustered under the "other" category included a variety of designations, such as "Chief Risk Officer", "Chief Audit Executive", and "Security advisor" in the respective departments.

Figure 3: Overview of officials interviewed by designation (N=69)



2.3 Methods and procedures used in data collection

Data for the present study was essentially collected using the interview schedule, and review of documents on the fraud prevention and those documents provide by departments as samples of the strategies they have in place on fraud prevention.

2.3.1 Instrument

The interview schedule was chosen as the main method of data collection in the present study. The primary advantage of utilizing an interview schedule as a data collection method is basically related to naturalness, spontaneity, flexibility and control over the environment. Interview schedule provides access to firsthand information from people who are close to the situation being studied, information which may not be tapped by questions in the questionnaire. Interviews can be used to establish perspectives on a situation, identify and gather opinions and evidence on an issue, follow-up on observations, explore specific problems and probe for depth on widely held views, and interviews can reveal aspects, patterns or processes which other methods may fail to do[12]. It was important to apply interviews schedule in a study because interviews allowed the researcher to have control over the environment.

The interview schedule comprised of both closed and open ended questions. The closed ended-questions focused on the following key areas: whether Fraud Prevention Plans (FPPs) were in place, when they came into being, what they comprised of, how often they were reviewed, and what structures were responsible for their implementation. The incorporation of open-ended questions, designed to probe the processes departments

[12] Kanda, 1996

engaged in when implementing FPPs, the management, personnel and structural arrangements used, and how FPP planning could be improved, would enable the instrument to extend its observations concerning fraud prevention planning.

Open questions allowed departments to comment more freely about the instruments they were putting in place to measure the impact of their FPPs, how reporting on FPPs occurred, time-related questions on the review of FPP and related risk assessment exercises, and how the effectiveness of a range of activities departments were engaged in to execute their FPPs could be improved. This included general effectiveness, management arrangements, fraud prevention-related structures, and fraud prevention awareness activities.

The questionnaire was structured according to the following four sections:

- Overview of Departmental Fraud and Risk Preparedness:
    a. Questions on content of FPP
    b. Questions in risk assessment
    c. Questions on risk management strategy
- Overview of Departmental Fraud Prevention Structures and Procedures.
- Departmental Fraud Profile.
- Overview of Departmental Activities to Promote Awareness of Fraud.

2.3.2 Process followed during instrument development

During the process of designing the questionnaire, a variety of stakeholders were consulted to obtain their inputs and comments. These stakeholders included representatives from the National Treasury, Office of the Accountant-General, Auditor-General, the provincial government of Gauteng's Shared Services Centre, and the Southern African Institute of Government Auditors[13]

A training workshop was convened to familiarise potential researchers who were identified to administer the questionnaires, with the content of the instrument. Following the workshop, a questionnaire Aid was developed and distributed to the researchers. The purpose of the Aid was to familiarise these individuals with the unique legislative and regulatory terminology associated with fraud prevention planning in the public service. The Aid provided explanations to specific questions that could be difficult to explain to interviewees.

Finally, the research study was also subjected to a research ethics screening, which assessed how it intended to deal with questions surrounding the participation of respondents and ensuring the confidentiality of results. Participating officials were consequently asked to read and sign an informed consent form prior to the questionnaire being administered to them.

[13] SAIGA carried out public sector fraud survey in 2001/2002, which covered over 500 public sector bodies at national, provincial and local levels of government, including public entities. The survey was broader in scope than this study.

2.3.2 Document review

Documents review was applied as a supplementary data collection method in this study. Researchers were also requested to obtain certain documentation from departments on their fraud prevention planning activities. The documents included procedure documents on fraud prevention in the respective departments, fraud prevention policy documents, annual reports, and flyers on fraud prevention. The documents as secondary sources of data collection were intended to supplement the information obtained from the primary sources during the interviews.

The following key documents were requested from the departments that participated in this study:

- Fraud Prevention Plan
- Risk Assessment Plan/Risk Management Strategy
- Organisational structure of Department
- Job descriptions (employees responsible for fraud prevention)
- Conflict of interest policy
- Reports to Department of Public Service and Administration pertaining to fraud and corruption
- Examples of fraud prevention and awareness newsletters and circulars
- Examples of training programmes on fraud prevention

In a study of this nature, it was imperative to analyse some of the government documents that created the fraud and prevention initiative. The relevant legislations giving effect to FPPs was also analysed. This included the PFMA and subsequent Regulations to the PFMA requiring the preparation and implementation of FPPs. The Regulations to the PFMA, coupled with another document published by the National Treasury, entitled: Guide for Accounting Officers: Public Finance Management Act. October 2000, provided useful contextual details on the key departmental structures and management arrangements pertaining to fraud prevention.

2.3.2 Reliability and Validity

In this study, to ensure content validity of the interview schedule, there was a pre-test on the instrument. The instrument was consequently modified in line with the findings and comments from the pre-test.

2.3.3 Limitations of the research

This study did experience some limitations during the course of conducting the research. The first was its inability to access large numbers of Chief Financial Officers to participate in the questionnaire, which was to some extent helped by a much better participation rate of senior managers. The second limitation was not being able to achieve the targeted number of departments in KwaZulu-Natal province, due to the effects of a public service strike experienced in that province. Time constraints did not allow the study to make-up for this shortfall in the province.

2.4 Data analysis

Preparation for data analysis began with the collation and cleaning of all completed questionnaires. Before questionnaire data could be captured electronically, each questionnaire had to checked in order to verify which department it was administered with and the date that it took place, based on the informed consent form. Each questionnaire was also checked for supporting documentation accompanying it. The content of each questionnaire was scanned, to check for correctness: i.e. the circling of coded responses was clear and unambiguous, and for general legibility. This took place before questionnaire data was captured electronically[14].

Data obtained in the present study was analysed both qualitatively as well as quantitatively. The qualitative analysis of the data included both thematic and content analysis strategies, in line with the aims and objectives of the study. The analysis of data was thematically structured, corresponding to the four major sections of the questionnaire: overview of departmental fraud and risk preparedness, overview of departmental fraud prevention structures and procedures, departmental fraud profile, and overview of departmental activities to promote awareness of fraud. The actual analysis of the questions in each of these areas was guided largely by frequency calculations, designed to give information on the extent of departmental compliance, activities, processes, and experiences of fraud prevention planning.

2.5 Conclusion

This chapter has provided an overview of the research methodology employed in assessing the implementation of Fraud Prevention Plans in the public service. Semi-structured interview schedule was employed by this study. Purposively sampled departments at both national and provincial departments participated in this study.

[14] Using SPSS statistical software

Chapter 3: Legislative and Regulatory Framework for Fraud Prevention Planning

3.1 Introduction

This chapter outlines the legislative and regulatory framework which has introduced and influenced fraud prevention planning in the Public Service. The chapter also presents the dynamics of fraud prevention plans from different countries with similar conditions like South Africa.

3.2 The legislative and regulatory framework for fraud prevention

3.2.1 Legislative and regulatory framework: South Africa perspective

Planning for "fraud prevention" in the South African public service has its genesis in the introduction of the Public Finance Management Act "(PFMA), in 1999. Since the promulgation of PFMA further legislative, regulatory and policy prescripts have been developed to give direction and guidance to departments on the implementation of Fraud Prevention Plans.

It is important to note that although PFMA it did not mention "fraud" by name, it is meant to prevent instances where public monies and related resources were appropriated for uses other than those for which these were intended. The PFMA addresses the issue of fraud in the following sections:

- Section 38. (1)(c)(ii), which concerns the "general responsibilities of accounting officers" in the public service. This section specifically states that these officials "must take effective and appropriate steps to prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct;"

- Section 38. (1)(g), which concerns accounting officers reporting immediately, and in writing, the particulars of said expenditure (as described above) to the National Treasury and to tender authorities where the procurement of goods and services is involved

- Section 38. (1)(h)(iii), where accounting officers must take appropriate and effective disciplinary steps against officials who make or permit such expenditures.

- Another section of the PFMA that impacts on fraud is section 40.(3)(b), which states that the annual report and audited financial statements of departments, trading entities and constitutional entities must include the particulars of any material losses through criminal conduct, and any unauthorised, irregular, fruitless and wasteful expenditure occurring during the relevant year.
- Finally, Chapter Ten of the PFMA concerns disciplinary procedures dealing with financial misconduct.

The PFMA embeds the issue of fraud prevention in a broader discussion around the roles and responsibilities of accounting officers (Heads of government department) in maintaining sound financial management. Fraud prevention is implicitly located in the Act's reference to the prevention of activities that undermined the legitimate and sound use of public finances, i.e. unauthorised, irregular expenditure and material losses resulting from conduct judged to be criminal.

A more explicit mentioning of fraud prevention arose a year after the PFMA came into being, in an accompanying document published in October 2000 by South Africa's National Treasury[15]. This document stated that "The Act [PFMA] aims to modernize financial management in the public sector, and in the process, to reduce fraud, corruption and waste." It then accentuated the organizational importance of creating internal controls, defined as the systems, procedures and processes designed to minimize risks that a department might be exposed to as a result of fraud, negligence, error, incapacity, etc. The most significant item in the Guide was its call for government departments to develop "fraud prevention plans", as a tool to manage the risk of fraud, recommending that these plans were to be developed no later than 31 March 2001.

Treasury Regulations to the PFMA (Government Gazette number 22219) published in April 2001 gave legal weight to the more explicit references to fraud prevention planning contained in the Guide for Accounting Officers[16]. These were expressed in the following sections:

- Section 3.2.1: under the section "internal controls and internal audit", stipulated that Departments must carry out a "risk assessment" to determine the material risks to which the entity may be exposed, and to develop a "strategy" to manage these risks. The development of a "fraud prevention plan" must comprise part of this strategy.

- Section 3.2.2: requiring that the fraud prevention plan be "fully operational" by 30 June 2001.

The Treasury Regulations published in April of 2001 were amended a year later in May of 2002 (Government Gazette number 23463), which formalised the procedures governing the relationship between fraud and "risk" in section 3.2.1 by stating that a fraud prevention plan be included as part of a "risk management strategy", and further that the said Strategy be communicated to all employees (section 27.2.1)[17]. The Regulations went through a further revision in March 2005 (Government Gazette number 27388), which although no significant changes were made to the requirement that fraud prevention plans be developed, did include references to "fraud" in relation to a host of other activities carried out in public service bodies, including banking and cash management, compliance with ethical standards, and the abuse of supply chain management[18].

[15] National Treasury. 2000. Guide for Accounting Officers: Public Finance Management Act. Pretoria: National Treasury.
[16] Government Gazette. 2001. Public Finance Management Act, 1999: Treasury Regulations. Number 22219
[17] Government Gazette. 2002. Public Finance Management Act, 1999: Amendment of Treasury Regulations in Terms of Section 76. Number 23463.
[18] Government Gazette. 2005. Public Finance Management Act, 1999: Amendment of Treasury Regulations in Terms of Section 76. Number 27388.

The publication of a fraud risk and prevention document by the National Treasury (not dated), rounded out the key legislative and regulatory sources behind the creation of fraud prevention plans in the South African public service, by establishing general implementation guidelines on how government departments ought to go about managing the risk of fraud[19]. These guidelines were outlined in a section entitled: "Fraud Prevention Framework", which included discussion on the following issues:

- Integrating strategic-operational plans
- Raising vigilance
    - Increased awareness
    - Encouraging active involvement of management and staff in fraud prevention
    - Management responsibility
- Fraud Risk Management
    - Identifying potential for fraud
    - Assessing the risks
    - Addressing the risks
    - Monitoring progress
- Dealing with Fraud Allegations
- Deterring Fraud

The Public Service Anti-Corruption Strategy, introduced in 2002 by the Department of Public Service and Administration, also outlined specific elements to be incorporated into fraud prevention and anti-corruption planning, arguing that all public service departments should establish a "minimum capacity" to undertake[20]:

- Conduct risk assessments
- Implement fraud plans as required in the PFMA
- Investigate allegations of corruption and detect risks at a preliminary level (i.e. personnel verification)
- Enable the process of conducting further investigations, detection and prosecution, in terms of prevailing legislation and procedures
- Receive and manage allegations of corruption through whistle-blowing or other mechanisms
- Promote professional ethics amongst employees

Other statutory instruments influencing public service fraud prevention planning include the Prevention and Combating of Corrupt Activities Act[21]. This piece of legislation includes explicit reference to the offence of fraud being committed, including in the amendment of related statutes, and otherwise corresponds with prevailing definitions of fraud in describing the "General offence of corruption". It does this by defining corruption as the acceptance, agreement or offering to accept any gratification from any other person, where a benefit is derived, and in a matter that amounts to the illegal, dishonest, unauthorised, incomplete or biased exercise, carrying out or performance of powers, duties or functions...(chapter 2, part 1, section 3).

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[19] National Treasury. XXXX. Fraud and Risk Prevention: Volume 6. Pretoria: National Treasury.
[20] Department of Public Service and Administration. 2002. Public Service Anti-corruption Strategy. January 2002. Pretoria: DPSA. Pages 14-15. The DPSA renewed its call for departments to establish a minimum anti-corruption capacity in 2006 by publishing a guidelines document. See list of references.
[21] Act 12 of 2004

The introduction of the Protected Disclosures Act[22] (2000), a year after the PFMA, established protection for persons with information pertaining to "unlawful or irregular conduct". This piece of legislation, also known as the "whistle-blower" Act, laid down procedures governing the disclosure of information on said conduct by employers and employees in the public and private sectors, and the protection of individuals making such disclosures. The issue of disclosure speaks directly to the detection and subsequent management of conduct exposing governments departments to potential risks emanating from unlawful or irregular conduct, which could include activities defined as fraud.

A chronological summary of the key legislative and regulatory provisions governing fraud prevention planning in South Africa is given in **table 3**.

Table 3 Framework for public service fraud prevention planning in South Africa

Public Finance Management Act (1999)	• Section 38, Section 40, Chapter 10, which together concern material losses experienced by departments, actions to prevent losses, and disciplinary procedures for dealing with financial misconduct
Guide for Accounting Officers: PFMA (2000)	• Recommendation that departments develop Fraud Prevention Plans no later than 31 March 2001
Protected Disclosures Act (2000)	• Affording protection for persons with information concerning unlawful or irregular conduct, which could include engaging in fraud
Treasury Regulations to the PFMA (2001)	• Section 3.2.1: Departments must carry out a risk assessment and develop a strategy to manage risks. A Fraud Prevention Plan must comprise part of this strategy • Section 3.2.2: Fraud Prevention Plans be fully operational by 30 June 2001
Revisions to Treasury Regulations to PFMA (2002 and 2005)	• Risk management strategy, which comprises Fraud Prevention Plan, must be communicated to all employees • More references to "fraud" in relation to activities carried out by public service bodies
Public Service Anti-corruption Strategy (2002)	• Departments establish a minimum capacity to combat fraud and corruption
Prevention and Combating of Corrupt Activities Act (2004)	• Outlining offences in respect of corrupt activities (inc. fraud), relating to public officers

[22] Act 26 of 2000

Fraud Risk and Prevention: Volume 6, National Treasury (not dated)	• Wholly concerned with fraud prevention planning, including a variety of topics relating to awareness, management responsibility, risk assessment, monitoring progress, investigations, and deterring fraud.

3.2.2 Legislative and regulatory frameworks: International perspectives

The development of fraud prevention guidelines for South Africa's public service compares favourably with other countries, especially other Commonwealth countries. The Australian experience displays indications that fraud prevention emerged out of a similar legislative and policy process to that experienced in South Africa. For example, section 45 of Australia's Financial Management and Accountability Act (1997) requires that the heads of government agencies implement a "fraud control plan"[23]. It also states that the Australian government's "fraud control policy" had been revised to take account of changes in the environment in which its agencies operated, including the introduction of the FMA Act.

Features of an effective "Fraud Control Plan" published by Australia's Attorney-General's Department share a number of elements identified in South Africa's planning processes, including the undertaking of risk assessments, allocating responsibilities and mechanisms for implementing fraud prevention strategies, information concerning an agency meeting relevant fraud control training requirements, the collection and reporting on fraud and fraud control information, and detailing how employees, contractors and members of the public can report fraud[24].

In the United Kingdom, the Treasury department has also published guidelines for managing the risk of fraud in public service bodies (2003)[25]. These guidelines also recommended the development of a "Fraud Policy Statement" and "Fraud Response Plan", in addition to government departments undertaking systematic assessments of fraud risks. Following the Australian government's description of the ideal features which, in its case, a "Fraud Control Plan" ought to exhibit, the UK Treasury suggested that fraud policy statements and a Fraud Response Plan should include a number of provisions that correspond with fraud prevention planning in South Africa, including allocating responsibilities for managing fraud, dealing with fraud if it occurs, training related to fraud prevention and detection, and procedures for reporting and investigating fraud[26].

3.3 Conclusion

This chapter reviewed the legislative and regulatory framework governing fraud prevention planning in South Africa. Legislative developments for fraud prevention accelerated after the introduction of the Public Finance Management Act in 1999, and between its introduction and the present day, no less than eight legislative, regulatory

[23] Attorney-General's Department. 2002. Commonwealth Fraud Control Guidelines. Canberra: Commonwealth of Australia. Page 5
[24] Ibid: 11.
[25] HM Treasury. 2003. Managing the Risk of Fraud: A Guide for Managers. London: HM Treasury
[26] Ibid: 6, 25-26.

and policy instruments could be identified as impacting directly on fraud prevention planning. In addition, comparing South Africa's legislative and regulatory framework for fraud prevention was also shown to coincide positively with measures adopted by other countries, such as the creation of instruments strategically designed to combat fraud (i.e. Prevention, Control or Response Plans), the allocation of management responsibilities for fraud prevention, training and awareness activities, and reporting procedures.

OVERVIEW OF PART TWO

Part two presents the main findings of this study on the implementation of Fraud Prevention Plans in the public service. Part two comprises three chapters, which roughly correspond with the structure of the questionnaire used to collect empirical data on fraud prevention activities. Chapter four will concentrate on the instruments that departments have developed to carry out fraud prevention and risk management. Chapter five will focus on the structures and procedures put in place by departments to support these instruments. Chapter six will focus on the extent of fraud experienced by departments, and their activities in promoting awareness of fraud and fraud prevention.

Chapter 4: Fraud and Risk Preparedness

4.1 Introduction

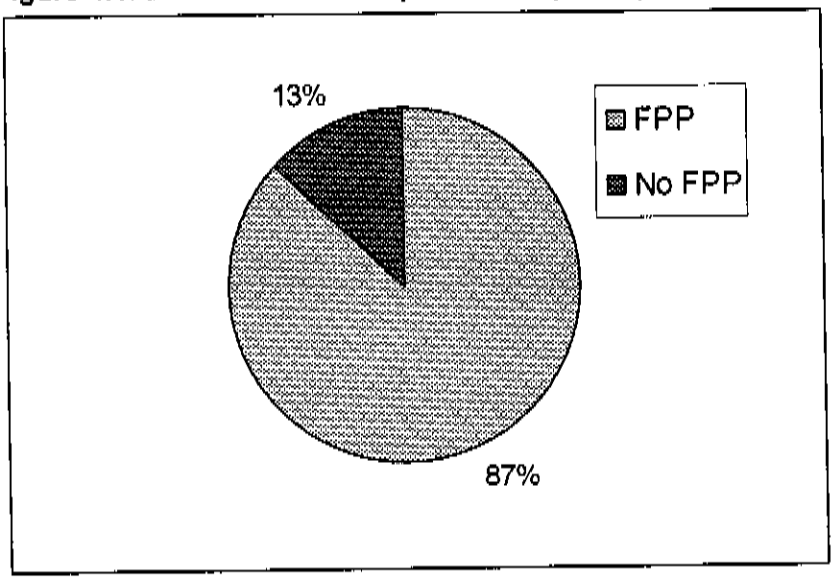
Chapter four presents findings on departmental fraud risk and preparedness. This section of the questionnaire comprised a variety of questions designed to enquire into the existence, content, review and assessment of departmental fraud prevention and risk management instruments. This included questions pertaining to the existence of Fraud Prevention Plans, how often these were reviewed, the content of these Plans, how their effectiveness was assessed, and how effective they were judged to be. It also covered related questions on the content and effectiveness of departmental risk management strategies, and the frequency of risk assessment activities.

These questions were asked at the beginning of the questionnaire because they would be able to establish whether the building blocks of FPP implementation were in place before further enquiry into the state of human resource and functional arrangements for fraud prevention could be examined.

4.2 Basic overview of fraud prevention plans and risk assessment

A key fact that this study needed to establish was whether departments had established Fraud Prevention Plans. This was fundamental to the rationale of the study, which was to evaluate the implementation of these plans. Figure 4.1 indicates that 87% of departments reported having an FPP in place. There was no significant difference when the data was compared between national and provincial departments, where 93% of national departments sampled reported having an FPP, compared with 85% of provincial departments[27].

Figure 4.1: Existence of fraud prevention plans (N=69)

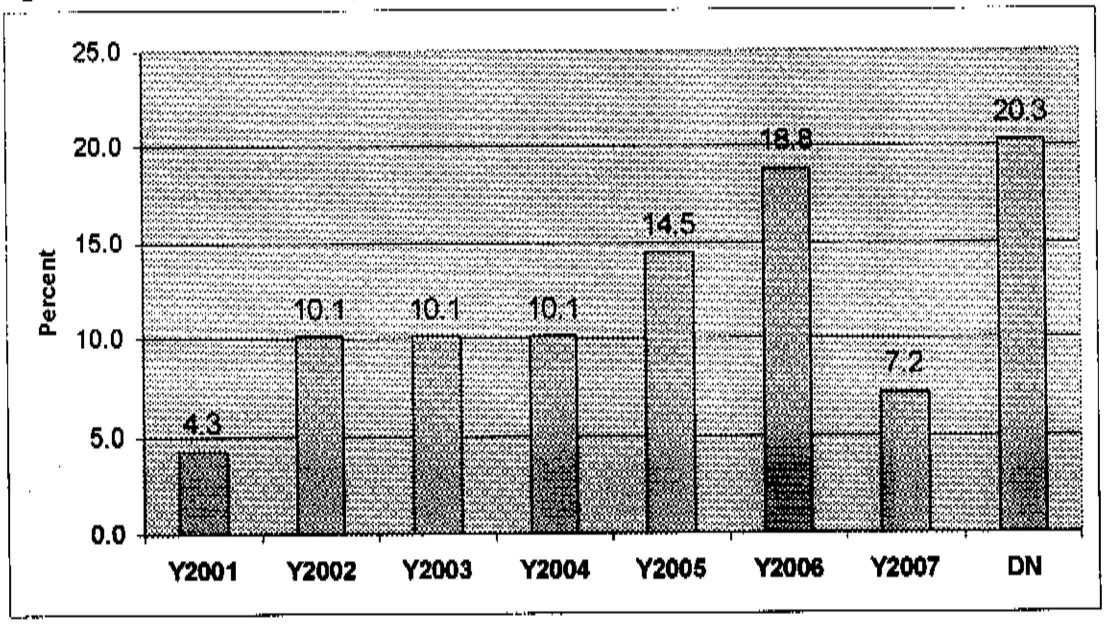


[27] FPPs were also widely represented amongst and within departmental sectors participating in the study.

To check the reliability of departmental claims that they did in fact have FPPs in place, interviewers were requested to obtain a hard copy of these plans from departments. Compared with the 60 departments in total that reported the existence of FPPs, the study ended up with an equivalent number of hard copy fraud prevention plans, 70% of which were dated.

To obtain some comparative perspective on these findings, they were contrasted with the results of a 2001 PFMA survey published by the PSC, which asked all provincial departments whether they had developed a Fraud Prevention Plan[28]. The PFMA survey contained 49 provincial departments that also participated in this study, which consisted of only a slightly larger number of provincial departments (54). Results for the 2001 survey observed that of these 49 departments, 49% reported having FPPs. If compared with the 85% of this study's provincial sample stating that they had an FPP in place, it can be concluded that significant progress at the provincial level has been made in the past six years.

Figure 4.2*: When did a department's FPP first come into effect? (N=69)



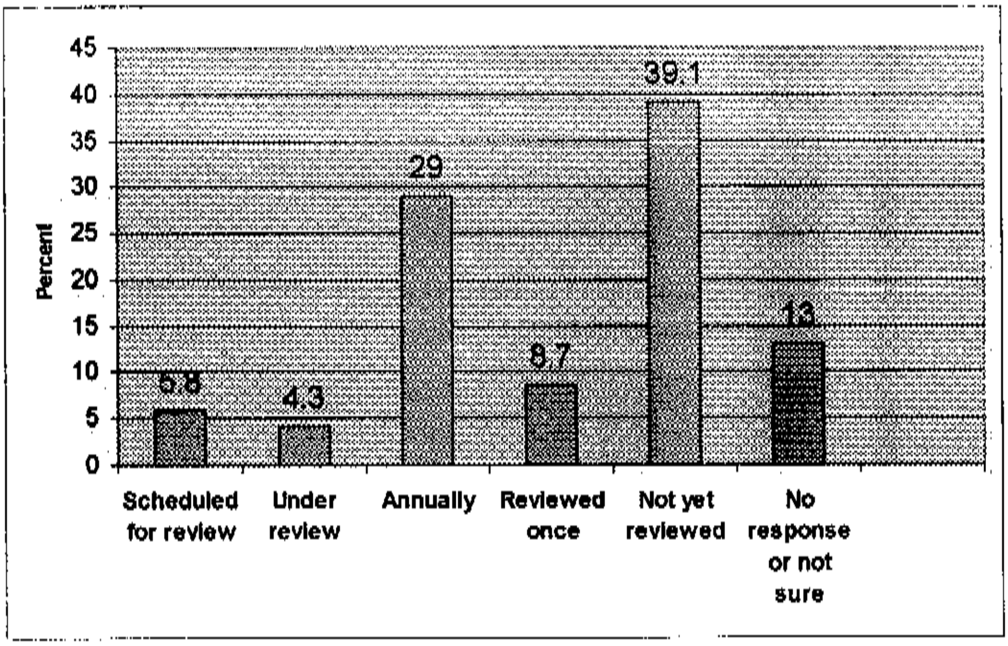
*Total excludes 4.3% of departments that said their FPPs first came into effect prior to 2001

Departments were then asked to indicate when their FPPs first came into effect, or became operational. The findings showed that 33% of departments indicated that their FPPs first came into effect in 2005 and 2006. The period immediately following the Treasury requirement that FPPs be implemented (2002-2004) saw a lesser though sustained increase in the number of departments operationalising Fraud Prevention Plans. Over 20% of departments could not recall for certain when their Plans first came into being.

[28]See Public Service Commission. 2002. Report on Risk Management: A Provincial Perspective. Pretoria: Public Service Commission.

Those departments that did have functioning FPPs were then asked to indicate how often they reviewed these Plans. Although Treasury Regulations to the PFMA do not specify the precise intervals at which FPPs ought to be reviewed, the inclusion of this question could establish some basis for future comparison. The results displayed in figure 4.3 showed a mixed picture, were 39% of departments indicated that they had not yet reviewed their plans. This included departments that reported having no FPP in place, departments whose plan had only recently come into existence (i.e. 2007), and other cases where plans had simply not yet been reviewed. A further 30% of departments did however indicate that they reviewed their FPPs annually, with a further 4% mentioning that their plans were presently under review.

Figure 4.3: How often does department review FPP? (N=69)

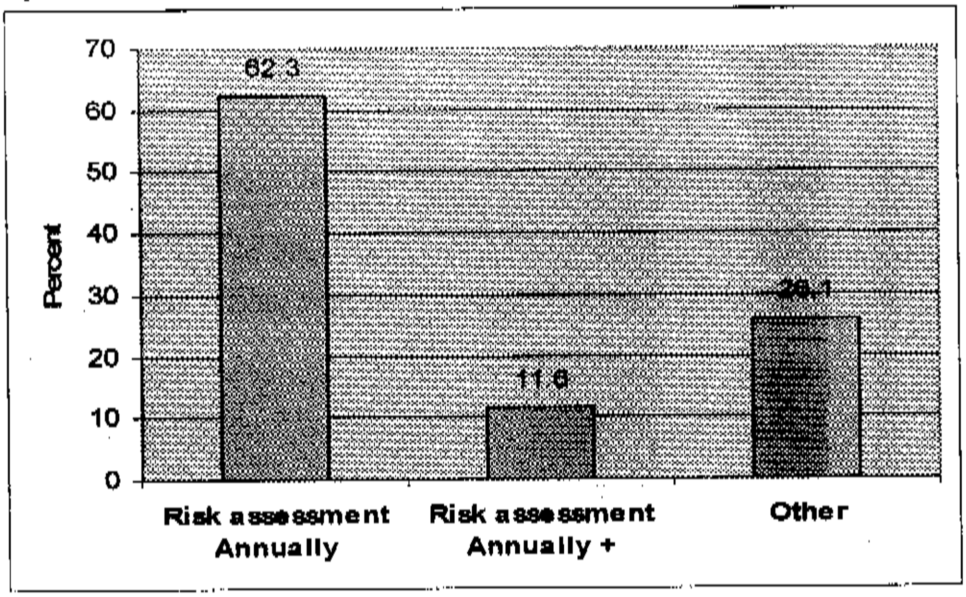


A more encouraging picture was found when Departments were asked how often they conducted "risk assessments". Firstly there is no uniform interval at which risk assessments are expected to be carried out, where Treasury Regulations to the PFMA indicate only that these should be conducted on a "regular" basis, and where National Treasury has elsewhere recommended that risk assessments be undertaken, preferably every two or three years, or when significant change has occurred[29]. Risk assessments are considered crucial to informing the development of FPPs, by helping to identify existing and emerging risks in the operational environment of a department, which might materially impact on it. The relationship between risk assessments and FPPs specifically revolves around areas of risk being potentially susceptible to fraudulent activity.

Figure 4.4 below shows that over 62% of departments indicated that they conducted risk assessments on an annual basis. A further 11% reported that they conducted these more frequently, including bi-annually, and even quarterly. This compares favourably with suggested intervals for risk assessment.

[29] National Treasury. XXXX. Fraud Risk and Prevention: Volume 6. Pretoria: National Treasury. Page 7.

Figure 4.4: How often does department conduct risk assessment? (N=69)



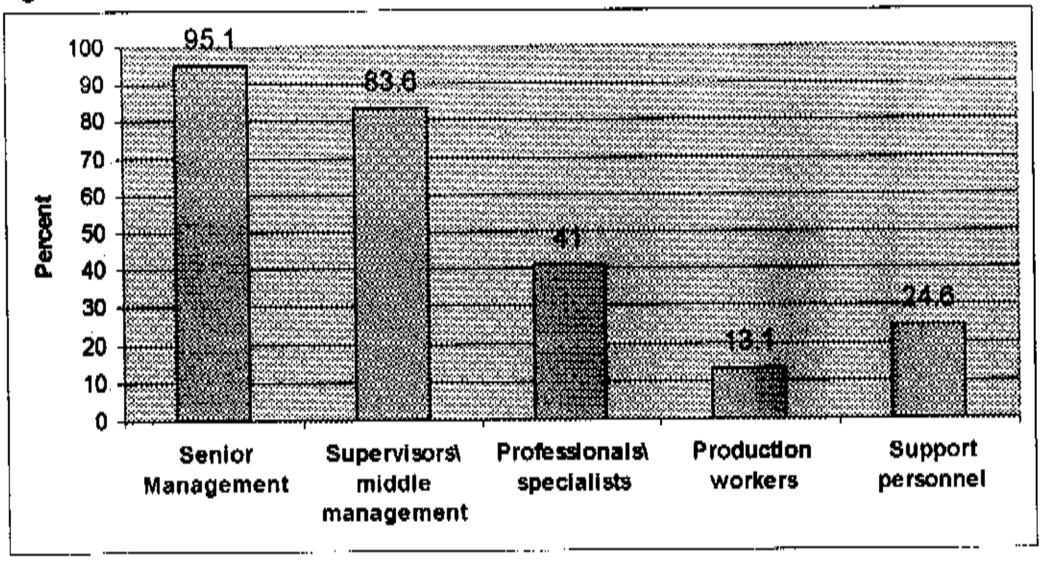
Data on the frequency of risk assessments was then compared with an analysis of supporting documents received from departments, which showed that 55 departments out of the 60 departments (92%) that provided hard copies of their FPPs also provided some evidence of a risk assessment or management plan. Having noted this, it was of some concern that the review of FPPs has not seemingly kept pace with the frequency of risk assessments being conducted by departments.

4.3 Development and content of fraud prevention plans and risk exercises

The next group of questions were intended to expand on the existence and frequency of departmental fraud and risk assessment exercises, by enquiring into the involvement of departmental employees in these activities. Employee involvement speaks to the benefits for building awareness and educating staff about the issue of fraud, and measures to prevent it[30]. Figure 4.5 shows the results of a question that asked departments to indicate which categories of employees were involved in the development of their FPPs. Departments could select more than one category of employee.

[30] Ibid: 6

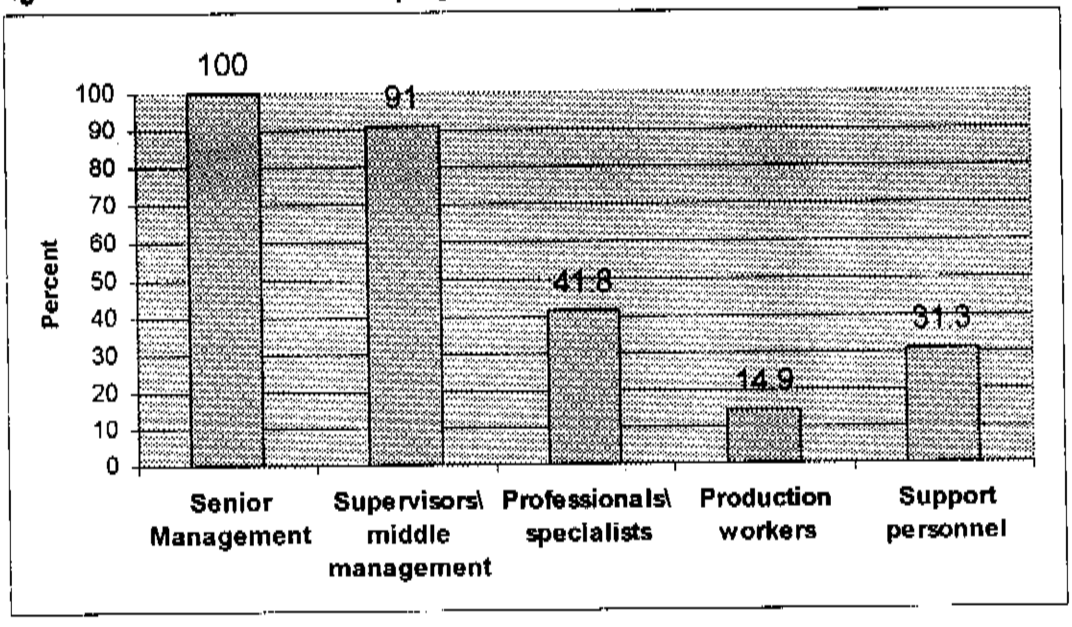
Figure 4.5: Involvement of employees in development of FPP (N=61)



A relatively higher number of departments selected senior and middle managers, compared with other categories of employees.

Figure 4.6 displayed a similar picture with no discernible difference in the high level of involvement of senior and middle managers in the risk assessment process. Again, departments could select more than one category of employee.

Figure 4.6: Involvement of employees in risk assessment process (N=67)



With regards to figures 4.5 and 4.6, the extent of the disparity in the level of involvement of managers versus other employees in fraud prevention planning and risk assessment raises concern about how actively staff, other than management are being involved in these key fraud prevention activities.

The next series of questions inquired into the actual content of FPPs. Departments were first asked about the broad structure of their Plans, which included issues such as the "prevention", "detection", and "investigation", of fraud, which have all been covered in the legislative, regulatory and policy framework governing fraud prevention. Just over 60% of departments reported that their FPPs contained provisions governing the prevention, detection and investigation of fraud. The response rate to this question was curious considering that over 87% of departments could confirm they had an FPP in place, and where in most cases the development of these Plans were carried out within the last three years. It can only be surmised that a lack of acquaintance with the broad content of their Plans was evident, where this study was also able to establish through an analysis of the actual FPPs received by departments that in fact 82% of these did outline procedures for investigating fraud.

The initial impression about a lack of acquaintance with the broad content of their FPPs subsided somewhat when departments were asked to give a more detailed profile of the contents of their FPPs.

Table 4.7: A more detailed assessment of departmental FPPs (N=62)

	N	%
Allocate mgt. responsibilities	56	90.3
Scope of applicability	56	90.3
Zero tolerance	57	91.9
Investigate reported incidents	58	93.5
Publish sanctions	26	41.9
Protect whistleblowers	55	88.7

Table 4.7 shows the results of this question, which shows over 90% of departments were reporting that their FPPs contained provisions concerning the allocation of management responsibilities for fraud, procedures to investigate reported-incidents (largely corroborated by an analysis of the actual Plans), the adoption of a "zero tolerance" attitude towards fraud, and defining the scope of the Plan's application. The allocation of management responsibilities in FPPs was assessed against an analysis of the actual FPPs received by departments. In this regard, the analysis revealed that 97% of these (58/60) displayed management arrangements for dealing with fraud, largely corroborating what respondents indicated.

One aspect of a Fraud Prevention Plan's content that appeared particularly prominent was the protection of whistleblowers, or those reporting on suspected fraudulent activity. When elsewhere in the survey departments were asked to specifically describe how protection was provided to employees who reported on fraud (table 4.8), where in some cases departments made reference to more than one form of protection, the results showed that 20% were citing a whistle-blowing policy.

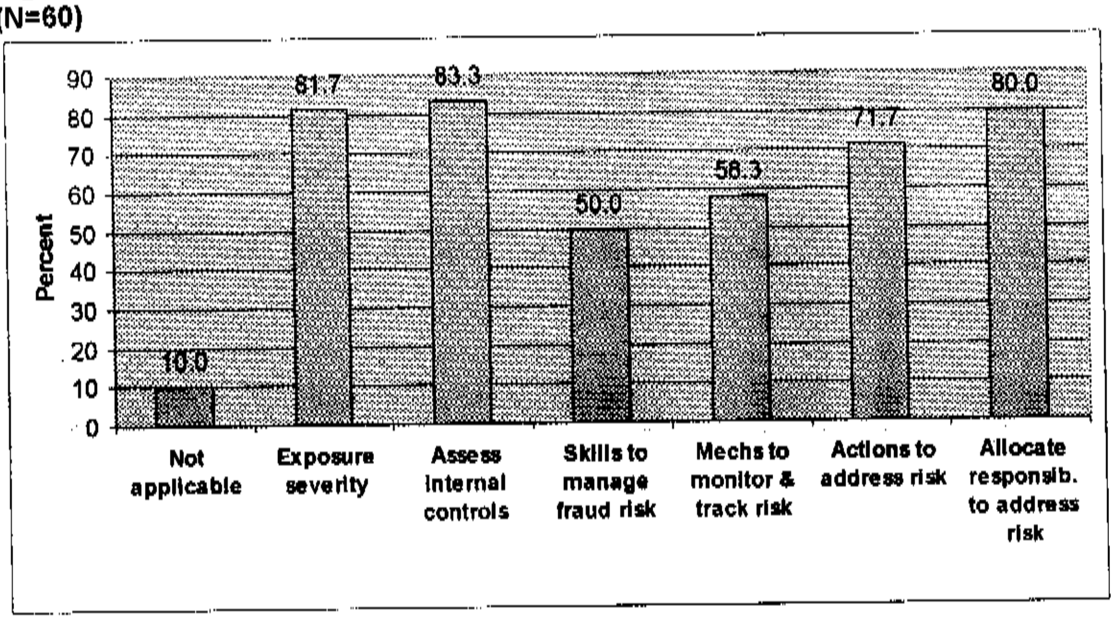
Table 4.8: How is protection provided to employees who report on fraud? (N=65)

	N	%
Anonymous reporting	25	38.4
General reference to Protected Disclosures Act	16	24.6
Reference to departmental whistle-blowing policy	13	20.0
Confidentiality (reference to how disclosures are treated)	11	16.9
Other	13	20.0

More prevalent were the 38% of departments that allowed for anonymous reporting, and the nearly quarter of non-specific references to the Protected Disclosures Act (PDA). Responses to this question raise some concerns about the make-up and extent of protected disclosure/whistle-blowing mechanisms in departments, given the small percentage of departments citing a whistle-blowing policy as compared with individual activities for reporting fraud, and more general references to the PDA, for which there appear to be no practical guidelines or regulations concerning its implementation[31].

Moving away from the content of FPPs, the study then sought to broaden its inquiry by asking departments about the contents of their "risk management strategies" (figure 4.9). These strategies are specifically mentioned in Treasury Regulations to the PFMA as the vehicle under which FPPs are supposed to be developed and implemented.

Figure 4.9: Assessing the contents of departmental Risk Management Strategies (N=60)



[31] The 2002 Public Service Anti-Corruption Strategy indicated that although the PDA commenced on 16 February 2001, no guidelines for its practical implementation were in existence. There were also no implementation guidelines apparent when this study searched legislation, regulations, policy and other documents produced by the Department of Justice and Constitutional Development, which oversees the PDA. There was however reference to a document entitled: Protected Disclosures Act: Draft Practical Guidelines for Employees, dated 2001, which however was not available when trying to access it.

Although not eliciting the largest share of departmental responses, it was found that 10% of departments checked "not applicable", indicating that they either had no risk management strategy in place or were in the process of developing this. This was marginally better than the percentage of departments (13%) reporting no FPP in place[32].

On a more positive note, a greater proportion of departments were reporting that their risk management strategies made provision for the assessment of internal controls, or procedures for minimising the adverse impact on a department's operations of risks. A high of 81% of departments also indicated that their strategies identified the severity of their exposure to risks. A large number of departments also pointed out that their risk management strategies covered the allocation of responsibilities to address risk. These findings generally reflected those at the FPP level, where a high proportion of departments were also reporting that their Plans were allocating management responsibilities, to which it could be added the high percentage of actual Plans displaying evidence of a risk assessment process or management plan.

Only 58% of departments acknowledged that their risk management strategies specified mechanisms to monitor and track risk, which does not correspond with data presented earlier on the frequency with which departments appear to be engaging in risk assessment exercises. This may exhibit a similar explanation to that proffered earlier about FPPs, where the outcomes of risk assessment exercises may need to be more effectively incorporated into risk management strategies. Finally, the number of departments indicating that their risk management strategies specified the skills required to manage fraud risk was also markedly low (50%). This particular finding will become relevant later in this section.

4.4 Assessment, measurement and effectiveness of fraud and risk activities

Following descriptions of the existence, development and content of fraud prevention and risk management instruments, the questionnaire attempted to obtain some objective basis for establishing the effectiveness of these instruments. It therefore asked departments to identify what formal indicators they used to assess the effectiveness of their FPPs, where more than one option could be selected. A second and related question asked departments what instrument(s) they had put in place to assess the impact of their FPPs. The results are given in tables 4.10 and 4.11 respectively.

The findings showed that a relatively lower percentage 80% (55/69) of the total departments offered a response to the question on assessment indicators. In addition, of those departments that did respond, 18.2% (N=10) answered that it was "not applicable" to their situations. On a more general note, departmental responses to the items displayed in this section did not go above 51%, which, as with earlier data on how frequently FPPs were reviewed, does raise a general concern about the extent and quality of efforts to assess the impact that FPPs are having.

[32] Of the six departments answering "not applicable" to the question on risk management strategy, four of these also reported no Fraud Prevention Plan.

Table 4.10: Formal indicators to assess the effectiveness of fraud prevention plans (N=55)

	N	%
Not applicable	10	18.2
Year-to-year comparison of fraud statistics	24	43.6
Reduced incidents	28	50.9
Improved usage of anti-corruption hotline	18	32.7
Improved public image	19	34.5
Improved good faith reporting	25	45.5
External validations for improving internal controls	22	40.0

More encouraging results showed that a majority of departments that did respond to this question (51%) stated that they assessed the effectiveness of their FPPs through reduced incidents. This was followed closely by improved good-faith reporting (45.5%), year-to-year comparison of fraud statistics, and external validations to improve internal controls (40%).

Augmenting the question on formal indicator usage, departments were also asked to identify what instrument(s) they were putting in place to measure the impact of their Plans (table 4.11). In posing this question, pre-selected categories were not given, requiring departments to speak freely about the nature of these instruments. Table 4.11 shows that responses were given by only 56 departments, accounting for 81% of the sample, similar to the number reporting on formal indicator usage. Departments in a number of cases also cited more than one instrument.

Table 4.11: Instruments put in place by departments to measure impact of FPP (N=56)

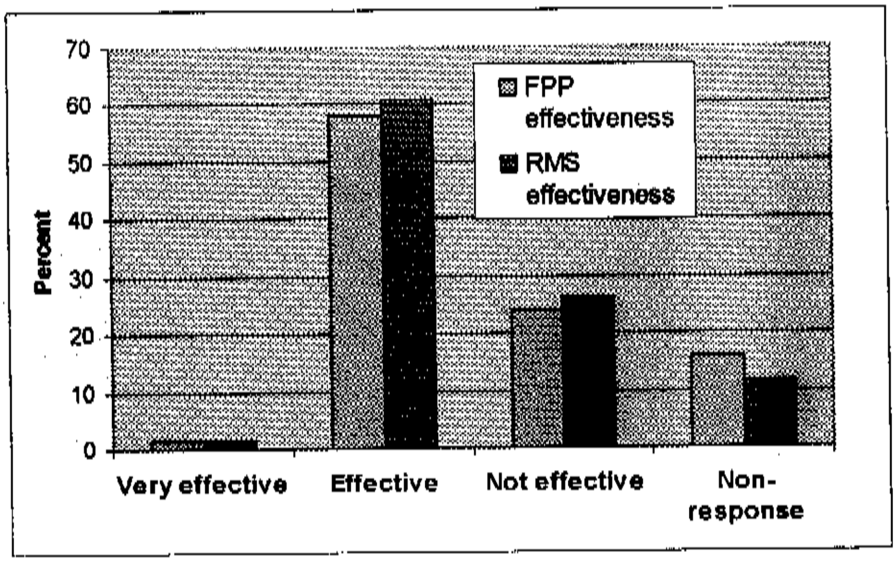
	N	%
Reporting structures, forums, and practices	22	39.2
Collection and analysis of data on fraud (inc. risk assessments)	19	33.9
None	18	32.1

The results displayed some concern that of those departments that did offer a response, bearing in mind the response rate, nearly a third of departments (32.1%) stated that they had put in place no instruments to measure the impact of their FPPs. Nearly 40% of departments did however convey that the impact of their fraud prevention planning was evaluated through reporting practices, structures and forums. Nearly 34% of departments also collected and analysed data on fraud.

Concluding the first section of the questionnaire on fraud and risk preparedness, departments were asked more directly to describe the effectiveness of their FPPs and risk management strategies, and to indicate how the effectiveness of these instruments could be improved. Given the fact that 63.7% of the officials interviewed as part of this survey were confirmed senior-level public servants (Senior Manager, Director upwards), a greater measure of weight was attached to their perceptions of effectiveness.

Departments were firstly asked to describe the effectiveness of their FPPs and risk management strategies. The results for this question are given in figure 4.12.

Figure 4.12: Effectiveness of fraud prevention plans and risk management strategies (N=69)



The findings firstly showed a convergence of opinion pertaining to the effectiveness of FPPs and risk management strategies (figure 4.12). Secondly, departments were largely of the opinion that these instruments were "effective", followed by a quarter of departments saying that they were "not effective". Non-responses were between 10 and 15% of the sample.

More interestingly though, when departments were asked to comment on how the effectiveness of their FPPs could be improved (table 4.13), the findings showed that 65% cited a need to establish sufficient capacity to implement FPPs as well as a need to strengthen their Plans and planning activities for implementation.

Table 4.13: How effectiveness of FPP could be improved (N=63)

	N	%
Establish sufficient capacity to implement, and strengthening Plan and planning processes	41	65
Awareness of fraud prevention and Plan	22	34.9

This illustrates that despite a dramatic improvement in the number of departments having developed FPPs, the full potential and effectiveness of these Plans has been held back. This might also explain earlier data exhibiting substantial room for departments to improve the review of their FPPs as well as the accompanying assessment and impact measurement tools accompanying these reviews. Also worth noting was that 34.9% of departments stated that awareness of fraud prevention and related departmental planning could be improved. It may be useful to consider this gap in fraud prevention awareness against an earlier observation which showed a low level of involvement of employees below management level, in the development of these plans (figure 4.5).

Keeping these responses in mind, when departments were asked to comment on how their risk management strategies could be improved (table 4.14), 36.5% cited a need to establish sufficient capacity to implement risk management.

Table 4.14: How effectiveness of risk management strategy could be improved (N=63)

	N	%
Establish sufficient capacity to implement risk management	23	36.5
Diffusion of responsibility for risk management	17	26.9
Awareness	12	19

A smaller percentage of departments (nearly 27%) expressed a need to diffuse responsibility for risk management more widely across their employees, which in particular emphasised a stronger role for departmental managers. A need to improve awareness of risk management was also cited by 19% of departments. It is noteworthy that departments were expressing similar themes of implementation capacity and awareness building in relation to how their FPPs and risk management strategies could be improved, which is unsurprising given that these two instruments are meant to be closely linked. Having said this, what is disconcerting is that, as FPPs are meant to function within the broader context of risk management, capacity challenges at the risk management level will more than likely translate into corresponding challenges at the level of fraud prevention. Finally, it is interesting to consider the issue of implementation capacity for risk, and more specifically fraud risk management, against data presented earlier in figure 4.9, which showed that only 50% of departments were indicating that their risk management strategies specified skills to manage fraud risk.

4.5 Conclusion

This chapter presented findings on the fraud and risk preparedness of public service departments. This study found that given the baseline nature of its research, coming only six years after Treasury Regulations required departments to prepare FPPs, it was encouraging to see that a very high percentage of national and provincial departments participating in this survey were reporting FPPs in place. The contents of these Plans, as well as departmental risk management strategies, were also of a generally good standard, covering a range of key topics in fraud and risk management.

Amongst this favourable background of FPP and risk assessment instruments in existence, a number of areas of concern were evident, which threaten to undermine the contribution and impact of FPPs towards strengthening departmental internal controls and contributing towards a sustained reduction in the incidents of fraud.

Firstly it was apparent that departments could be doing more to more regularly and effectively review and measure the impact of their FPPs, which given that departments appeared to be conducting risk assessments more frequently, could ensure that their FPPs maximise on potential changes in a department's fraud risk profile. Also of concern was the observation that departments were generally consistent in reporting that capacity challenges had hampered the effectiveness of FPP and risk management activities.

Chapter 5: Fraud prevention structures and procedures

5.1 Introduction

This chapter presents findings on departmental structures and procedures for carrying out fraud prevention planning. Having established the state of departmental fraud and risk preparedness in chapter four, this chapter enquired into the identity and effectiveness of organisational structures that departments had put in place to implement fraud prevention and risk management activities. It also posed questions about the structure of management relationships for fraud prevention in departments, and procedures governing these relationships.

5.2 Allocation of roles and responsibilities for fraud prevention

The roles and responsibilities for fraud prevention allocated to departmental officials speaks directly to key aims of this research, which included reviewing how FPPs were aligned to the management processes within departments, and in practical terms how departments were organising their human resources in order to implement FPPs. To this end, departments were asked to indicate what specific responsibilities for fraud prevention were being performed by a selection of management officials and structures. The responsibilities were characterised according to the following activities: oversight, planning, implementation, monitoring and evaluation, and reporting.

The results in Table 5.1 below show that departments see the Accounting Officer, or head of department's responsibility as almost exclusively (90%) one of oversight. The responsibilities of the Chief Financial Officer (CFO) are more equally distributed across the various activities, with implementation of fraud prevention measures being the most important responsibility (73%), followed by reporting on fraud prevention matters (71%).

Table 5.1: Allocation of fraud prevention responsibilities by position of employee or structure

	Accounting Officer	CFO	Internal Audit	Audit Committee	Senior Mgt.
Oversight	**90.5**	**60.3**	42.6	**75.4**	36.1
Planning	33.3	**69.8**	36.1	6.6	**70.5**
Implementation	17.5	**73.0**	34.4	3.3	**86.9**
M&E	33.3	**68.3**	**88.5**	**65.6**	**70.5**
Reporting	39.7	**71.4**	**78.7**	54.1	**65.6**
N=	63	63	61	61	61

The role of the internal audit structure (IA) is mainly viewed in terms of monitoring and evaluation (88%) and reporting (78%). The role of the Audit Committee (AC) is mainly that of oversight (75%) followed by monitoring and evaluation (65%). These are generally consistent with how these functions are defined in Treasury Regulations. Finally, it was also evident from the responses that like the CFO, the responsibilities of

References

departmental senior managers were also highly represented across a spread of activities, such as planning, implementation in particular, and monitoring and evaluation. Despite the formal allocation of responsibility attributed to departmental senior managers, as key officials in the front line assessment of risk and fraud detection, in practice departments had earlier cited a need to improve the diffusion of responsibility for managing risk (chapter four, table 4.14).

Interestingly, when in relation to the allocation of responsibilities for fraud prevention departments were asked how this could be improved the most prevalent response was the need to strengthen the accountability of officials and structures in managing fraud (50%). This included responses such as operational managers being more involved and being held more accountable for fraud prevention, and a lack of buy-in and greater commitment needed from managers. This was accompanied by a need to more clearly specify task responsibilities for fraud prevention amongst, as well as the more effective functioning of specialist fraud prevention structures, such as regularity of meetings. All of these responses have a direct bearing on how accountability is ultimately assessed.

Table 5.2: How sharing of responsibilities for fraud prevention can be improved (N=62)

	N	%
Strengthen accountability practices	31	50
Increased awareness	17	27.4

Around 27% of departments added that awareness about fraud prevention and related planning could be improved. These two areas revealed serious concerns about the effectiveness of formally assigned responsibilities for fraud prevention, as illustrated in table 5.1. Analysis of data from chapter four would also tend to correspond with these findings, where despite the high reported rate of participation of senior and middle managers in the development of FPPs and risk exercises, and a reported high rate of familiarity with the content of these instruments, departments were faring less well when it came to the review, assessment, impact measurement, and awareness levels pertaining to their fraud prevention practices.

A final question pertaining to management of fraud asked departments if responsibilities related to fraud prevention had been formally included in the work plans and/or performance agreements of staff. The results showed that only 50 departments or 72% of the sample responded to this question. Of those departments that did respond, 82% indicated that this was the case with their Accounting Officers (heads of department), which is consistent with the level of responsibility attached to these officials in the Public Finance Management Act. Interestingly, 80% of departments also said that responsibilities for fraud were included in the mandates of senior managers, which generally corresponds with the high degree of management responsibilities attached to this level, as seen in table 5.1. This finding should however be read against an apparent need to strengthen accountability practices in departments, which involved managers, in table 5.2.

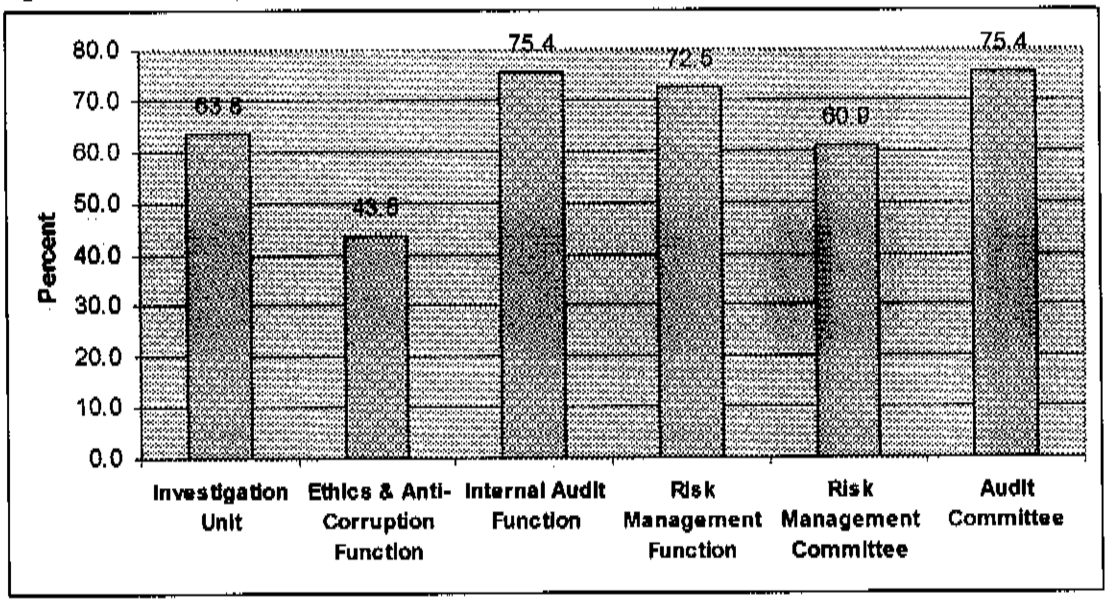
References

Chapter 3: Legislative and Regulatory Framework for Fraud Prevention Planning

5.3 The existence of fraud prevention structures

Following an assessment of departmental management arrangements for fraud prevention, the study next enquired into what structures departments had put in place to implement fraud prevention. The results are given in figure 5.3.

Figure 5.3: Fraud prevention structures in place (N=69)



Amongst departments that did report having structures in place, two of the most common were internal audit and Audit Committees, which were each cited by over 75% of departments. These functions are moreover explicitly mentioned in Treasury Regulations in the context of fraud prevention and risk management. It was also encouraging to see that a large majority of departments were reporting more specialised fraud and risk-related structures, beyond internal audit and Audit Committees, where the mandate of these two functions extends beyond fraud and risk[33]. In this regard, 72.5% of departments reported having a risk management function in place, with a lesser grouping of departments (60%) operating a risk management committee. Structures mandated specifically to conduct investigations was visible in 63% of departments. Other fraud and risk-related structures identified by departments by name, included those responsible for "Minimum Information Security Standards"[34], a "Senior Management Activity Council", and a "Planning and Chief Financial Officer Technical Committee".

[33] According to Treasury Regulations to the PFMA, the scope of Internal Audit includes assessing the operational procedures and monitoring mechanisms governing transfers made and received. The scope of Audit Committees entails reporting broadly on the effectiveness of internal controls, the quality of financial management reporting, and the evaluation of financial statements.

[34] Noted that MISS personnel are tasked with the protection of classified departmental information, and preventing and investigating security threats to a department, which encompasses the reduction of corruption and in a related sense "fraud" in government. See Parliamentary Monitoring Group (2002). Available from: http://www.pmg.org.za/briefings/briefings.php?id=67 (Accessed 26 July 2007)

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A final observation made in relation to the profile of fraud and risk-related structures was that despite departments reporting a variety of these structures in place, excluding internal audit structures and audit committees which will be explained in subsequent sections of this chapter, a sizeable minority of departments did not report having these structures in place. This was most visible in terms of specific risk management functions, committees, and ethics and anti-corruption functions. This is of some concern where it is recognised that the role of internal audit and Audit Committees is not primarily that of fraud prevention, which necessitates the creation of more specialised structures. This finding however otherwise generally aligns with data presented in chapter four, where 36% of departments were commenting that they needed to establish sufficient capacity to implement risk management. It is evident that prioritising the full establishment of risk management structures, including directing greater attention to identifying the necessary skills required, would correspondingly improve fraud prevention planning.

The following sections will focus on data obtained on internal audit and audit committees, which were the most common fraud and risk-related structures observed in departments.

5.4 The Internal Audit function

Almost all departments (94%) indicated that they performed an internal audit function. The difference between this figure and that presented in figure 5.3, which showed 75% of departments reporting an internal audit function, is explained by the distinction between the performance of a function and the existence of a "structure". In many cases although an internal audit function was being carried out for departments, this service was not provided by a department's own IA structure. This was most prevalent at the provincial level, where in many cases internal audit structures were centralised in provincial treasuries or Premiers offices. This can be seen in figure 5.4, which asked departments to describe how their Internal Audit functions worked in practice, where they could select more than one option.

Table 5.4: Practice of Internal Audit function (N=65)

	N	%
Your Dept operates a fully-in-house Audit Unit (IAU)	26	40.0
Your Dept shares the IA function with other Depts*	7	10.7
Your Dept co-sources the IA function with the private sector	19	29.2
Your Dept fully out-sources the IA function	1	1.5
Your dept makes use of a provincial shared services centre	26	40.0

References

*In some cases departments selected both that they shared the IA function with other departments and that they made use of a shared services centre.

The results showed that 40% of departments received internal audit services from a centralised structure, which was exclusively limited to provinces[35]. It was also observed that 10% of departments indicated that their internal audit function was shared with other departments. Looking only at provincial departments, it was found that 48% of these were making use of a provincial shared services centre (centralised internal audit). Nearly 30% of departments also indicated that they co-sourced the internal audit function with the private sector. This was most prevalent in the provinces, which accounted for 68% of those departments that co-sourced the internal audit function.

Substantive planning for the performance of the internal audit function was generally evident, with over 90% of departments reporting the use of annual internal audit plans and Audit Charters, and 77% stating that quarterly reports were prepared for an Audit Committee on the implementation of their Plans. Other activities informing the internal audit function included special requests, risk assessments, and regular meetings and report-back sessions.

The specific fraud-related responsibilities assigned to the internal audit function emphasised the assessment and giving of advice on the effectiveness of the Plan and related planning tools, such as risk assessments. This accounted for 53% of departments. This is moreover generally consistent with the picture presented in table 5.1, where departments were emphasising the monitoring, evaluation and reporting function of internal audit.

Table 5.5: Specific authority/responsibilities of IA for FPP (N=52)

	N	%
Assessment (M&E) and advise on effectiveness of FP Plan and related planning tools	28	53.8
Fraud-related investigative/detective responsibility	15	28.8
No specific responsibilities for fraud prevention	11	21.1

It was also evident that 28% of departments were indicating that their internal audit services were involved in fraud-related investigative and detective work. Just over 20% of departments stated that no specific responsibilities for fraud prevention were assigned to their internal audit services, which in a few cases was due to FPPs not being in place. A concern conveyed by this question was that only 75% of the sample, or 52 departments, registered a response.

When asked to comment on the effectiveness of their internal audit functions in the prevention and management of fraud, 71% of departments rated it as effective (Figure 5.6). About a third (29%) of departments however viewed their internal audit function as not being effective in the prevention and management of fraud. Responses were however only received from 55 departments, 79% of the sample.

[35] Shared internal audit services is permitted under Treasury Regulations to the PFMA

References

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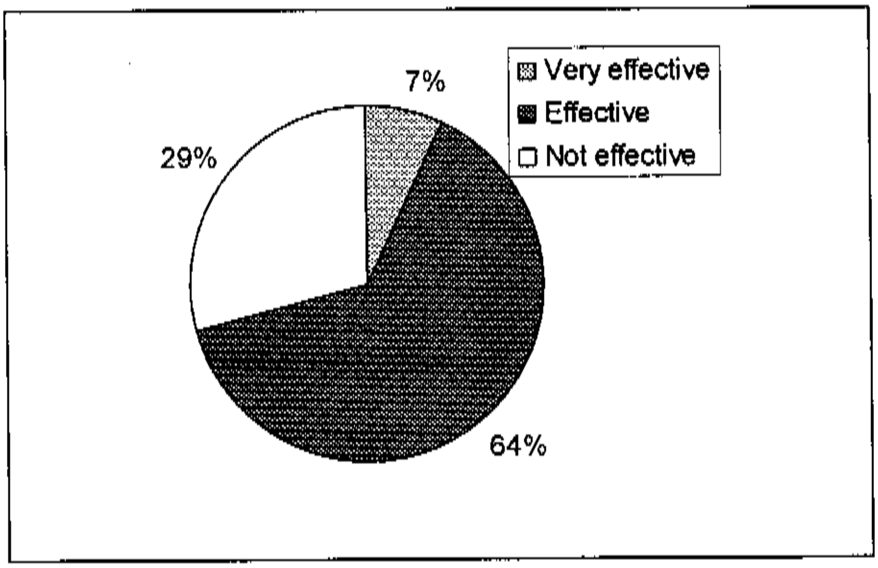
References

Figure 5.6: Effectiveness of IA function in prevention and management of fraud (N=55)



Although these figures present a seemingly healthy picture of the internal audit function viz. fraud prevention, it may be useful to project these views onto the reality of fraud being experienced in the public service. Although the types of fraud experienced in sampled departments will be covered in chapter six, it was observed from this data that at least 40% of the 69 departments surveyed were reporting multiple areas of their operations where fraud had been experienced, where this covered at least five out of ten activity areas[36]. This indicates that departments are reporting multiple areas of vulnerability to fraud risk, which places pressure on functions such as internal audit to strengthen a variety of areas where internal controls may be weak. As internal audit cannot be expected to shoulder exclusive responsibility for limiting fraud risk vulnerability, departments could be doing more to finalise the roll-out of more specialised risk and anti-corruption structures.

Objectively assessing the efficacy of the internal audit function can also be pursued by reviewing reports on financial misconduct cases in the public service. In its latest report, the PSC indicated that despite a reduction in the percentage of fraud and theft cases reported over the last five years (figure 5.7), the sustained high prevalence of these cases (65%) "...remains disconcerting and may be ascribed to a lack of proper control systems."

[36] Activity areas included bribes, cheque fraud, subsistence and travel claim fraud, procurement fraud, fleet management, staffing, payroll, recruitment, leave fraud, wage/salary fraud, theft of stationary and other inventories, theft of assets, other...

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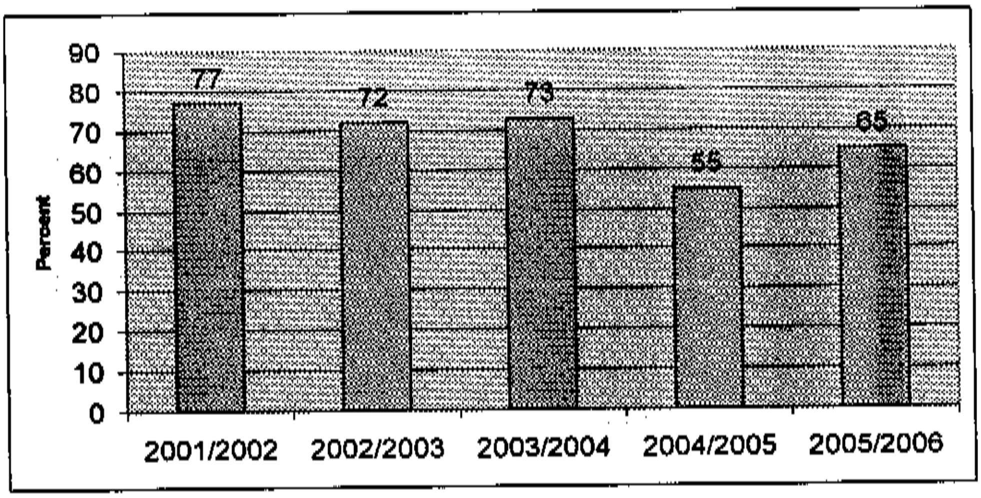
Figure 5.7: Fraud and theft cases as % of financial misconduct cases [37]



It should be reiterated that a perceived lack of proper control systems should not be limited to the internal audit function alone, where as previously reported by this study, departments could be doing more to fully constitute more specialised risk and anti-corruption structures, as well as improve awareness of their fraud prevention and risk management strategies.

When departments were asked to indicate how the effectiveness of their internal audit functions could be improved, an overwhelming number of departments (67%) indicated that a variety of capacity challenges had hampered the performance of internal audit.[38] The coding of these responses showed that the following were being experienced in particular:

- Skills development and training
- Vacant posts needing to be filled and additional posts created
- Retention of personnel
- Insufficient budgets
- In a number of cases a need to decentralise central internal auditing, at provincial level, to more effectively service departmental needs

Interestingly, the strong appearance of the issue of capacity reflects a similar finding made by the Office of the Accountant General in its 2006 research on internal audit and audit committees[39]. Although the extent of some of the data was limited, as with this study, where data for only about 30 provincial departments was available, it was possible to establish a more comprehensive picture of the structures and staffing for internal audit at the national level. The findings showed that of 29 national government

[37] Public Service Commission. 2007. Report on Financial Misconduct for the 2005/2006 Financial Year. Pretoria: Public Service Commission.
[38] This was based on 52 departments responding, or 75% of the sample.
[39] Data from the Office of the Accountant-General, National Treasury, was provided directly to the PSC

departments for which data was available, 55% of the posts associated with the internal audit function were filled, which left a vacancy of 45%[40]. At the provincial level, out of 22 departments across 7 provinces, 63% of the total IA posts listed were filled, with the remaining 27% of the posts vacant. This included instances where the IA function was shared amongst more than one department in a province.

5.5 The Audit Committee

This section looks at findings for the other most common fraud and risk-related structure in departments: the Audit Committee. Almost all departments (97%) indicated that they had established an Audit Committee. The discrepancy between this figure and the lower figure of 75% indicating that they had an AC structure in place is most likely explained by the significant number of departments that share audit committees (50.8%, N=65)), which again is permitted by Treasury Regulations[41]. This study concedes that the way in which separate questions were posed, one asking if Audit Committees were amongst the structures put in place by departments in response to fraud prevention, the other concerning whether departments had established Audit Committees, may have confused departments about whether they needed to cite the existence of Audit Committees servicing only their individual departments, or Committees that they shared with other departments. Having said this, the significant finding was that nearly all departments (97%) were being serviced by an Audit Committee.

It was found that nearly 70% of departments rated the services provided by their Audit Committees as effective or very effective, with the remaining 30% stating that these structures were not effective[42]. These roughly mirrored results for the same question posed about the effectiveness of internal audit. As with that question however, departmental confidence in the work of audit committees should be set against data elsewhere showing departments experiencing multiple areas of fraud vulnerability as well as the sustained prevalence of fraud and theft.

Table 5.8: How can effectiveness of AC be improved (N=45)

	N	%
Greater interaction with and monitoring of fraud prevention planning activities in department	16	35
General structural and functional issues: more regular meetings, attendance problems, retention and suitability of members, greater resource commitment	15	33.3

When departments were asked how the effectiveness of their Audit Committees could be improved, a very low response rate was recorded, where only 45 departments or 65% of the sample made inputs. With this in mind, a broad array of responses were

[40] This was calculated on the difference between number of "posts" listed and number of posts "filled"
[41] Of the percentage of departments indicating that they shared their audit committees with other departments, all but one were at the provincial level
[42] Based on 56 departments responding, or 81% of the sample

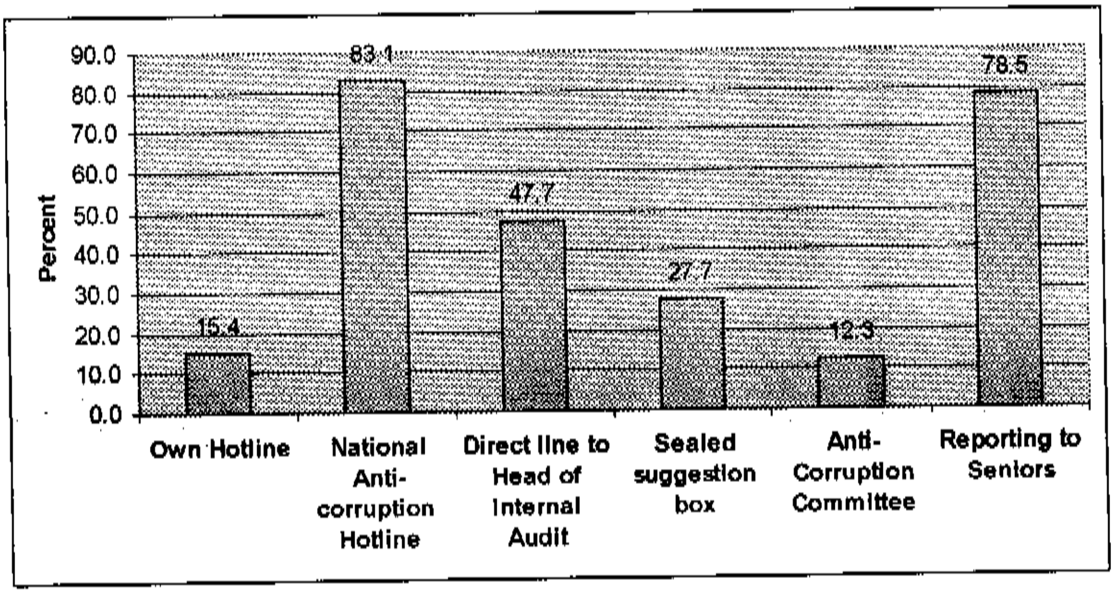
References

given, where 35% of responding departments indicated that their Audit Committees could be more regularly interacting with departments on fraud prevention planning activities. It was also observed that a third of departments were remarking on more general issues impacting on the functioning of their Audit Committees. This included more regular meetings, problems with attendance, retention and suitability of members, and greater resources committed to the structure.

5.6 Mechanisms to report and manage fraud prevention

The final section of this chapter deals with procedures put in place by departments to assist the process of fraud prevention planning. The first procedure concerned the reporting of fraud within departments, where departments were asked to indicate what mechanisms or instruments they had in place for this purpose, where they could select more than one option. The largest share of departments indicated that they directed their employees to a national hotline (Figure 5.9). This was followed by 78% of departments enabling the reporting of suspected fraud to seniors. Sealed suggestion boxes were available in about 28% of departments, with some departments making use of their own/in-house hotline.

Figure 5.9 Mechanisms to enable employees to report fraud (N=65)



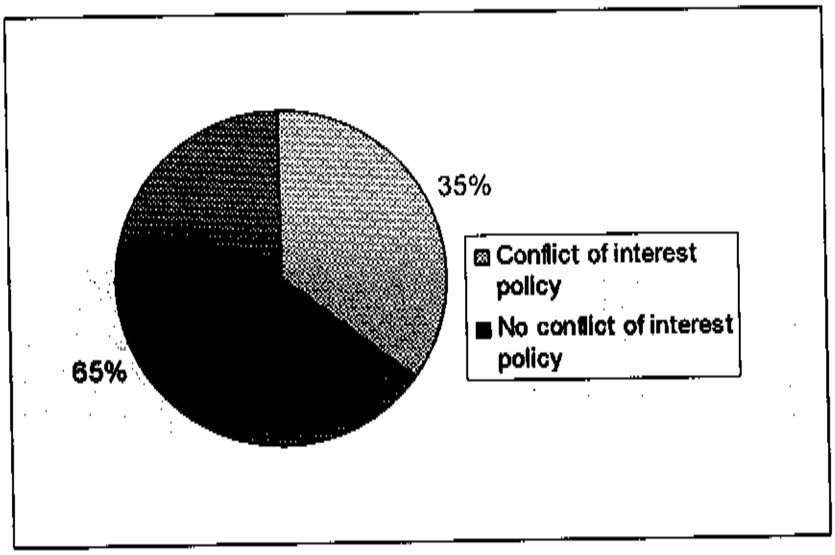
The national hotline in question refers to the National Anti-Corruption Hotline (NACH), managed by the PSC. Contrasting the seemingly high visibility of the NACH amongst sampled departments, with a recent report on the effectiveness of the NACH, exhibits encouraging signs, where the PSC indicated that the Hotline was a relatively new initiative and due to limitations in its capacity to manage the service, it had not yet been

References

able to commence with a "wide-spread" marketing campaign[43]. In the same report however, the PSC also argued that as it did not have the capacity to investigate cases reported through the Hotline, it was incumbent on individual departments to put in place the capacity to investigate corruption. Having observed this, a high proportion of departments were, in addition to publicising the NACH, also enabling their employees to report fraud in-house, to seniors (78.5%). The relatively small percentage of departments citing a whistle-blowing policy, as a mechanism to protect employees who report on fraud, does however raise concern about the effectiveness of in-house reporting.

Another procedural aspect of fraud prevention which the survey looked at involved conflict of interest, where departments were asked if they implemented a "conflict of interest" policy. Procedures governing conflict of interest speaks directly to minimising the risks associated with the conduct of its day-to-day activities. The findings showed that 35% of departments reported that they had a policy governing conflict of interest in place (figure 5.11), whilst 65% reported no such policy in place.

Figure 5.11: Conflict of interest policy in departments (N=65)



When departments that did not have a conflict of interest policy in place were asked to describe how they managed conflict of interest, 44% said that this was managed by way of a declaration of financial interests, with 31% indicating that this was dealt with via a declaration of financial and procurement related interests.

[43] Public Service Commission. 2007. Measuring the Effectiveness of the National Anti-Corruption Hotline (NACH). Pretoria: Public Service Commission. See Executive Summary.

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Table 5.12: How does department manage conflict of interest? (N=45)

	N	%
Declaration of financial interests (i.e. usually pertaining to senior managers)	20	44.4
Declaration of financial and procurement-related interests	14	31.1
Guided by relevant legislation (i.e. PFMA, Public Service Act)	7	15.5

Declarations were therefore the most frequent instrument used by departments to manage conflict of interest, in the absence of overarching policies on the issue. A smaller proportion of departments (nearly 16%) indicated that they were guided on the matter by relevant legislation such as the PFMA and the Public Service Act, without pointing out what specific provisions they were referring to.

On the issue of conflict interest, it is worth mentioning that a recent report published by the PSC recommended that the South African public service needed to move towards a more "structured" approach to the management of conflicts of interest. In this regard, it specifically mooted the establishment of a "stand alone" conflict of interest policy, meaning the creation of a policy separate from but complementary to the public service Code of Conduct and Financial Disclosures Framework[44]. The findings from this survey on fraud prevention would tend to empirically support the PSC's analysis on this point, in distinguishing the lack of conflict of interest policies with for example the practice of declaring interests.

5.7 Conclusion

The findings on departmental fraud prevention structures and procedures observed that a majority of departments in the sample reported the establishment of specialist fraud prevention and risk management structures, in addition to internal control mechanisms such as internal audit and audit committees. The formal allocation of management responsibilities for fraud prevention was also generally favourable amongst departments.

It was also evident however that management accountability and implementation practice for fraud prevention could be improved by more successfully de-concentrating and more clearly delineating roles and task designations for fraud prevention amongst departmental staff, especially managers. This is of heightened importance given the capacity problems being reported by departments in fully constituting specialist fraud prevention and risk management functions, as well as in their internal audit practice[45].

[44] Public Service Commission. 2006. Report on Managing Conflicts of Interest in the Public Service. Pretoria: PSC. Page 28, 35.

[45] Continuing capacity challenges in internal audit recalls similar concerns expressed by Chang and Van der Schyf in their 1998 analysis of public service internal auditing, where the researchers acknowledged that the role of the internal auditor was broadening from traditional inspection to more active involvement in improving operational and managerial performance. See Chang, S.Y., Van der Schyf, D. 1998. Critical issues of internal audit development in the South African public sector. *Accountancy and Finance Update* Volume 3, No. 5: 2-6. Page 2.

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Secondly, departmental procedures related to fraud prevention, such as reporting, protection, and conflict of interest, demonstrated a need to consolidate current activities into more robust conflict of interest and protection (i.e. whistle-blowing) regimes, or policies, so as to maximise the impact on fraud prevention.

References

Chapter 6: Fraud profile and awareness activities

6.1 Introduction

Chapter six will present findings on the type of fraud that departments have experienced, as well as the activities they have engaged in to raise awareness amongst and educate their employees about the issue of fraud and fraud prevention. Whereas chapter one showed that definitions of fraud were emphasising the acting out of a particular behaviour, where the intent was to misrepresent or engage in deceitful and dishonest conduct for the purpose of personal benefit, it was necessary for this chapter to try to understand and assess what departments were doing to sensitise, inform, educate and generally promote awareness of fraud prevention amongst their employees.

6.2 Types of fraud experienced by departments

This study wanted to establish how seriously fraud was affecting departments. In this regard, departments were asked to indicate from amongst a list of activities associated with their operations, those where they had experienced fraud. The findings are shown in table 6.1 below. Only a small percentage of departments (7.8%) stated that this question did not apply to their situation, indicating that they either had not or could not state for certain that they had experienced fraud in any of the areas listed. It should also be noted that departments were given the option to list "other" activities where they had experienced fraud, so as not to limit responses to pre-selected options.

Table 6.1: Activity areas where departments have experienced fraud (N=64)

	N	%
Not applicable	5	7.8
Bribes	30	46.8
Cheque Fraud	15	23.4
Subsistence and Travel Claim Fraud	29	45.3
Procurement fraud	46	71.8
Fleet management	35	54.6
Staffing- payroll, recruitment	23	35.9
Leave fraud	25	39.1
Wage\ salary fraud	16	25.0
Theft of stationary and other inventories	29	45.3
Theft of assets	43	67.2
Other	17	26.5

The findings showed that nearly three-quarters of departments were reporting that they had experienced procurement-related fraud (71.8%), followed closely by over two-thirds of departments indicating that they had experienced asset theft (67.2%)[46]. Such a high

[46] Theft of assets is not by definition subsumed under "fraud", as it has been defined separately from fraud as the "unlawful taking with the intent to steal of a thing capable of being stolen". Fraud and theft have however been reported on and analysed together, under the category "fraud and theft", in PSC reports on financial misconduct.

References

rate of procurement-related fraud would tend to reinforce a need, observed in chapter five, to strengthen conflict of interest regimes in departments. Furthermore, in its latest report on financial misconduct in the public service (2005/2006), the PSC recorded that the largest number of cases were seen at the level of production employees (below middle-management), which includes salary levels 1-8. It added that the highest number of financial misconduct cases involved employees at salary levels 6 and 7, where employees at these levels were often entrusted with duties that entailed the handling of monies and the "procurement of goods"[47]. It may also be noteworthy that employees below senior and middle management did not feature prominently when departments were asked which levels of employees were involved in the development of their FPPs and risk assessment process.

Although other activity areas where departments had experienced fraud were lower in percentage terms than procurement and asset theft, there remained a remarkably high plurality (at least 1/3[rd]) of departments reporting fraud experienced across a range of areas, including

- Fleet management (54.7%)
- Bribes (46.9%)
- Subsistence and travel claim fraud (45.3%)
- Leave fraud (39.1%)
- Staffing-payroll, recruitment (35.9%)

The observation that departments are reporting having experienced multiple types of fraud and theft accentuates the strengthening of efforts that can reduce the extent of their fraud risk vulnerabilities.

6.3 Fraud awareness and education

In order to assess the level of awareness of fraud and fraud prevention in departments, departments were asked to indicate what they were doing to improve understanding amongst their employees of the issue of fraud and fraud prevention. Departments were asked to select from amongst a list of activities designed to communicate and promote awareness of fraud prevention, those which they had instituted. The question also contained a number of open spaces for departments to mention "other" non-listed activities that they had engaged in to promote fraud awareness. The results are shown in table 6.2 below.

Moreover, although it may be defined separately from fraud, theft, as with fraud, exposes areas of business risk which, as a process, is shared with fraud prevention.

[47] Public Service Commission. 2007. Report on Financial Misconduct for the 2005/2006 Financial Year. Pretoria: Public Service Commission. Page 24.

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Table 6.2: Promotion of fraud awareness amongst employees (N=56)

	N	%
Fraud risk areas communicated to staff	33	58.9
Fraud Prevention Plan disseminated to staff	35	62.5
Risk Management Strategy disseminated to staff	27	48.2
Fraud prevention & awareness has been included in promotional aids. i.e. posters & flyers	29	51.8
Fraud prevention & awareness included in intra-departmental communication, i.e. newsletters, circulars, intranet	31	55.4
Dept informs staff of the outcomes of investigations & disciplinary actions	13	23.2

It is important to note that only around 81% (N=56) of the sample responded to this question, which could either indicate departments not having engaged in awareness-building activities or those that could not recall if they had. Secondly, while measures to inform employees about fraud prevention, such as disseminating FPPs, risk management strategies and fraud risk areas have taken place in a majority of departments responding, these key planning tools in the day to day detection and management of fraud clearly need to be distributed in a great deal more departments.

In addition to the dissemination of fraud prevention and risk management information, departments also displayed generally unsatisfactory attempts to promote awareness of fraud and fraud prevention through other forms of communication, such as promotional aids (posters, flyers): 51%, and intra-departmental correspondence such as newsletters as well as intranet postings (55%).

A further question enquired into other steps being taken by departments to educate employees about fraud, mostly through training and other active participation methods. Table 6.3 shows the results of a question which asked departments to indicate if they had carried out training using a variety of fraud and corruption-related instruments.

Table 6.3: Fraud prevention education activities by level of employee

~~N=~~	~~49~~	~~25~~	28	25	~~39~~
	~~Workshop fraud~~ Prevention	~~Ethics~~ training	Induction	~~Training~~ on PDA*	~~Training on Code~~ of Conduct
Snr. Mgt	**89.8**	**96**	67.9	68	**82.1**
Sup/Middle mgt	**91.8**	**88**	**85.7**	**88**	**92.3**
Prof/spec	46.9	60	67.9	52	69.2
Production	51	56	71.4	56	74.4
Support personnel	57.1	76	**78.6**	64	**84.6**

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*Protected Disclosures Act

The data firstly reflected considerable concern given the very low levels (i.e. "N"), indicating departmental responses, where no more than 71% of departments (49/69) responded to each of the categories given.

At the level of employees targeted, it was found that supervisors and middle managers were generally benefiting from fraud-related education across the various categories, followed by senior managers. What was of more concern however was the general lack of attention being directed at employees below middle-management, who, did not feature as prominently amongst the recipients of fraud-related education, although figures for support personnel were more mixed. This is of concern given the previous section's reference to the relatively high level of financial misconduct cases involving employees in the production category, and given the lower levels of involvement of employees below senior and middle management in risk assessment processes and the development of FPPs.

A further question posed to departments concerned how they could enhance the effectiveness of their fraud prevention communication and awareness activities (table 6.4). This question allowed departments to communicate their thoughts openly. This question was generally responded to well, covering 62 departments and eliciting 101 distinct responses. Having observed this, the data largely confirmed that departments could be doing more to promote awareness of fraud by engaging more intensively and regularly in a variety of activities and instruments for this purpose. The more creative of these, aside from workshops and circulars/newsletters, included:

- Greater publicising of sanctions applied in fraud cases
- Recorded message to clients who telephone departments, informing them of how they can report suspected fraud
- Publicising departmental fraud prevention strategies in the media
- Greater use of information technology, i.e. intranet, screensavers, to promote awareness of fraud prevention
- Stickers on tender documents relating to fraud prevention

6.4 Conclusion

The findings on departmental fraud profiles and the activities being carried out to promote awareness and improve understanding of the issue of fraud and fraud prevention, has firstly shown that departments appear to be sustaining fraud in multiple activity areas. This simultaneously reveals multiple areas of risk exposure, which heightens the significance of findings elsewhere in this study on preparedness, structures and procedures, which exposed areas where fraud prevention and risk management could be improved. Research elsewhere by the PSC is showing that cases of fraud and theft, as a percentage of reported cases of financial misconduct, remain relatively high.

Finally, it was also found and acknowledged by departments themselves, although not enough of these considering reduced sample responses, that they could be doing a great deal more, in terms of variety, to promote and communicate awareness, and

References

improve understanding of the issue of fraud and fraud prevention. This was particularly evident amongst employees below senior and middle-management, given findings elsewhere showing that these employees were less involved in fraud prevention planning and risk assessment, as well as the high proportion of financial misconduct cases linked to employees amongst this group.

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PART THREE: CONCLUSION

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Chapter 7: Conclusion and recommendations

This study represents the most extensive attempt yet to assess the state of Fraud Prevention Plan implementation in the public service. It builds on previous but more limited research carried out by the PSC and other public bodies on fraud prevention and risk management. This study's most encouraging finding has been the considerable improvement in the development of FPPs since their 2001 inception. Departments are also displaying positive efforts to establish specialist anti-corruption and risk management structures to support the work of internal audit and audit committee functions, and formally assign responsibilities for fraud prevention amongst a range of officials.

Having recognised these improvements, sustained high levels of fraud and theft being experienced in departments, along with multiple areas of fraud vulnerability, heightens the urgency for departments to attend to challenges that were otherwise evident in their implementation of fraud prevention planning. These challenges could generally be summarised according to the following four themes, which also encompass specific recommendations:

1. Departments should Improve the review of FPPs (i.e. regularity, assessment and measurement) to maximise the effect of more frequent risk assessment exercises being carried out in departments:
    a. As part of a more robust review process, departments should also put more effort into involving employees below senior and middle management levels.
2. Departments should expedite measures to operationalise and capacitate specialist fraud prevention and risk management functions:
    a. In the interim, but also as a general recommendation, responsibility for fraud prevention and risk management should be more clearly allocated and diffused more widely amongst line function managers.
3. Departments should extend and strengthen internal control procedures, such as conflict of interest regimes, around sustained high fraud risk areas and categories of employees, i.e. production level-procurement.
4. Departments should investigate the most effective means of building awareness and educating employees about fraud and fraud prevention. The data showed that departments could be doing considerably better here. Furthermore, in the absence of such an investigation, data showing that departments were citing a need to utilise a variety of awareness and educational instruments risks the impact of blindly implementing these being spread too thinly.

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